

50X1-HUM

The New Direction of Finance

Chin-yung Yeh Ti Hsin Fang-
hsiang, Wang Wei-ts'ai, Shang-
hai, October 1951

50X1-HUM

CONFIDENTIAL
Security Information

PREFACE

Since liberation, because of the gradual stabilization of currency and prices, the resumption and expansion of production, the correct leadership of the Chinese People's Bank, and the reliable efforts of banking employees, the banking business has passed through reform and reconstruction and begun to serve trade and industry for the expansion of production.

Just now, the banking business is undergoing further reconstruction and is advancing in a new direction towards collective management. At the same time, according to the Common Program, it should encourage private capital's spirit of expansion in the direction of national capital and in developing and raising the proportion of national capital. It may be firmly believed that by efforts in these two directions, the New China's financial system, headed by the Chinese People's Bank, will be more regular and firm, will more and more develop a planned national economy, and will increasingly pave the way for a high tide of economic reconstruction.

Here are collected 14 short articles, all of which have been published in the Chieh-fang Jih-pao and the Chin-chi Chou-pao. In general they trace the development of the Banking business through reform and reconstruction to the new road. They are respectfully offered to financial workers for reference. I await criticism and correction.

September, 1951.

Wang Wei-ts'ai.

- 1 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

THE ROAD FOR PRIVATE BANKING

Does private banking have a future under the "New Democracy" economic system?

I claim that it has.

As is well known, the "New Democracy" economics embraces five categories: State-operated economics; co-operatives economics; individual economics; private capital economics; and national capital economics. At the same time, the "New Democracy" economic policy is to develop production, advance the economy, protect public and private interests, and ensure profit to both labor and capital. Therefore, private banking that serves to foster social wealth and helps increase production, can not only survive, but will also be protected.

However, looking at it from the present subjective conditions, does private banking adequately fit into the economic policy of the "New Democracy?" I think not.

For this reason, let's make a brief investigation.

First, we should explain the nature of Chinese, financial capital, especially that of Shanghai. We should frankly confess that for several decades it has in part been basically compradore capital, and has been associated with bureaucratic capital. We likewise confess that some of the money-shops have drawn their capital from the villages, and have long been linked with commercial capital. Therefore they have not yet wholly rid themselves of feudalism. We also see clearly that after victory in the War of Resistance, a portion of the financial capital that poured into Shanghai from the hinterland, represented certain social strata just

- 2 -
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

as it had in Shanghai for many years. It was the financial capital of speculative nature which had grown up under the Japanese imperialist regime.

Let us also look at the actual conditions in banking. It cannot be denied that for 10 years or so the real strength of banking has greatly declined. With regard deposits, at the end of February this year (1949), the sum total of deposits in Shanghai's 219 private banks was 5,589,600,000 yuan in bogus Gold Certificates, worth at that time, some 3700 gold bars; about the time of the liberation, the sum total of deposits in private banks was about 3,000,000,000,000 in Gold Certificates, worth at that time some 100 bars of gold. How different from before the War, when the sum total of Fapi (paper notes) in Shanghai's 76 banks and money-shops was 470,000,000 yuan, equivalent at that time to 470,000 gold bars! Of course the making of this impecunious condition must chiefly be blamed on the grasping policy of the Kuomintang reactionary government which used currency inflation as a technique.

Under such conditions, the operations of private banking became very trifling. Savings transactions were gone; trust activities were almost gone; exchange, deposit and loan business also gradually dwindled. And because of accelerated inflation, activities in the speculative market and the currency turnover became more acute. Banking became in fact merely a sort of receiving and paying organ for receipts and actual cash. That is why banks were ridiculed as being mere "accounting-houses" for speculators. At the same time, because of banking's sensitivity to the whole market a large number of soldiers, politicians, trouble-makers,

- 3 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

and speculators moved into the banking business, making confusion worse confounded. So during the regime of Japanese imperialism, private banks in Shanghai reached a peak number of more than 500. Then under orders from the Kuomintang reactionary government, many of them closed their doors, and now only about 200 remain.

Thus the simple character of banking deteriorated, and banks lost touch with the broad saving classes, and became alienated from trade and industry. Still more serious, banking basically relied on (directly or indirectly) speculative activities in order to survive. Last year (19 August), when the bogus Fapi were changed for Gold Certificates, speculative activities were somewhat curbed; banking activities became unsteady and tended to collapse.

Further, we may mention some unhealthy tendencies within private banking. There are shown in careless business transactions such as irregular handling of deposit; loans on a personal rather than financial basis; reckless issuing of notes; hidden ledgers; discounting exchange-bills and using dishonored cheques to make up the amount [text vague]. Some are shown in poor management, such as a general lack of democratic spirit; adopting a severe attitude towards employees; poor personnel system; unfair schemes of commendations and a false system for test-credits; retaining the vogue of bowing to the master; questionable relations with other banks; blind competition; lack of connection between banks and money-shops; lack of harmony among big, medium, and small financial institutions, etc.

- 4 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

Of course all these are now past and such subjective defects can no longer continue. Therefore the most pressing task for private banking now is to make a careful self-examination on how to overcome these defects. Without a determination to recognize and overcome these defects, sooner or later mistakes will be made.

And so, how can private banking fit into the economic policy of the "New Democracy?" I believe there should be effort along three lines:

1. Serve the People.

Today China has basically entered upon an era of people's democracy. Consequently all work, all business, all must serve the people. All must seek the people's welfare. Of course, banking cannot be an exception. Using the words of Manager Ch'en Mu of the Shanghai branch of the People's Bank: "The great doors of the banks must be opened for the people. All persons engaged in private banking should take a vow to serve the people and eradicate the former erroneous ideas that banking is a bit higher than the people. Never again should a bank appear to the eyes of ordinary folk as a 'government headquarters', but more like a tea-house which they can enter at any time. We can positively assert that without such a fundamental change, any person, any business, will meet ruin."

2. Link up with Production.

If China wants to be independent, free, rich and strong, she must devote her strength to expanding production. Private banking should clearly understand that production is the basis of all economic activity and that banking follows production and is subservient to it. If production cannot expand, then neither can banking. Only as production goes

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

ahead happily can banking have a future. Therefore all thoughts of speculating, risking, boring in, must be cast aside, and replaced with undivided, honest study and planning on how to draw in capital and apply it to production.

3. Set up a Democratic System.

Unless there is an active spirit of work among the employees who carry on the actual work, private banking cannot develop even when it wants to. This means first the establishing of a fine labor-capital relationship, in line with the principle of "ensure the profit of labor and capital." At the same time, there should be frequent executive conferences in which employees have a voice, to hear employees' suggestions and criticisms as to management and operations. There should follow a discussion in which all take part. Let all former undemocratic arrangements be gradually discarded. The employees should actively work, earnestly learn, striving hard to expand production and raise the quality of banking.

Only thus can private banking travel a smooth road under the guidance of the People's Government.

10 July 1949.

- 6 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

EARLY STEPS IN THE REFORM OF PRIVATE BANKING IN SHANGHAI

The "Temporary method for Controlling Private Banking in the East China Region," published on 21 August (1949), is in fact a measure for re-establishing private banking. Some people have seen in this method of control simply a "method of reforming capital," but that is a mistake. For the reform of capital and renewed registration is only an item in the total method of control. At the same time, I claim that even if private banks and money-shops present an application to the chief of a bureau of finance and economics, yet, until they have been examined by said chief bureau and been approved, they cannot be said to have completed renewed registration. Therefore, what I call the early steps in reform of private banking in Shanghai refers to the 172 Shanghai banks and money-shops which before 20 September had gone through with the process of registering and examining resources, the 6 banks which had had this done for them by their main offices in other cities before 5 October, and the 20 banks which announced closing.

As pointed out in an editorial in the Liberation Daily of 21 August, after the method of control was published, there would certainly come about a "shrinkage" in cities where there was an over-concentration of private banking, as in Shanghai. So the dropping of 20, that is of 10 percent of the banks from the ranks in Shanghai, could have been foreseen beforehand. But here we must point out that about the time of the publishing of the method of control, friends of the banking business made many incorrect guesses and estimates, saying that the financial and economics authorities were by their huge resources ruining the private

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

banks, and that at least half of the banks and money-shops had no way to increase capital etc. After the early steps in reform, these guesses and estimates have proved to be mistaken.

During the early steps in reform in private banking in Shanghai, most private banks in Shanghai were able to re-register according to method of control. The chief reasons were two:

1. In the "Temporary Method for Controlling Private Banking in the East China Region," the provision regarding standards of capital in banking in Shanghai was at least 100 million yuan of actual cash for banks and trust companies and at least 60 million for money-shops. Only after numerous investigations and studies could a final decision be made. On the one hand the fact that private banks had been despoiled and weakened again and again by Chiang's bandit gang was kept in mind; also, heed was paid to the amount of capital that a bank or money-shop should at this juncture have on hand. Therefore this realistic provision enabled most banks and money-shops easily to deposit increased ready cash.

2. Since the closing days of July, after the Communist East China Office had started the slogan "Smash the enemy blockade; strive for the building of a new Shanghai," all the people in the east China region, under the leadership of Party organs, worked ceaselessly and the first stages of victory had already been won. In the field of economics this was revealed by the stabilization of prices, the gradual restoration of production, the rapid development of exchange of goods between town and country. In the field of banking this was reflected in increased deposits and the beginning of loans. All these caused the banking capitalists to understand the future of the new economic reconstruction and therefore stimulated their seeking re-registration.

CONFIDENTIAL
Security Information

As to private banks and money-shops depositing cash; beginning with the bank which was the first to apply on 10 September, the newspapers reported as follows: on the 13th, one; 15th, five; 16th, two; 17th, twenty; 19th, eighty-five; 20th, last day, sixty-nine. Clearly enough, the majority did it on the last two days. The cash deposited was 14,600 million yuan. If to this is added recognized property valued at 53 million, the total is 19,900 million yuan.

Because the "Temporary Method for Controlling Private Banking in the East China Region" was a regional measure, and the nation was not entirely liberated, and since telegraphic communications were not yet entirely restored, etc., the financial and economics offices, as regards the amount fixed for cash capital in the control method, did not insist strictly that it be subscribed for by shareholders of the banks. But there was a principle involved; namely, that the entire cash capital must really be in the possession of the bank or money-shop itself, and also must not be falsely made up by discount loans or such schemes. As to the sources of Shanghai private banks' cash capital at that time, I have uncovered personally the following:

1. The cash capital of most of them, especially the larger ones, came entirely from adjusting property in hidden accounts. The Chinese People's Bank also had changed some 4000 ounces of gold from hidden accounts to open accounts upon request of over 40 banks and money-shops. Each ounce counted as 75 silver dollars, the total coming to 500 million JMP. According to estimates from all sides, at least 150 banks and money-shops, on instructions from the Chinese People's Bank, changed their

- 9 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

hidden accounts into open accounts. So it may be affirmed that most of the cash capital deposited at that time by the Shanghai banks came from hidden accounts.

2. Some banks converted the property in their regular accounts (such as real estate, valuable securities, etc.,) making them cash capital.

3. Because property in hidden accounts was insufficient, and there was none in regular accounts that could be turned into cash, some banks and money-shops got a proportionate amount of new securities subscribed by old shareholders.

4. Banks and money-shops which could follow none of the above three procedures sought new shareholders to subscribe for stock. A number of branch banks in other cities advertising "increase of capital on our own initiative" belong under this category.

5. Some had shares subscribed for by employees.

6. Some branch banks had cash capital arranged for by main banks (meaning those in areas yet unliberated and those outside of east China).

Here we must mention the case of the Pu-hua /Restore China/ bank. On 20 September it deposited cash capital in the Chinese People's Bank amounting to 60 million yuan, but of this 21,500,000 was not the bank's own property, but was borrowed from other banks on a discount. This plainly was speculative, clever conduct contravening the order. Although the bank spontaneously and frankly confessed to the Chinese People's Bank, and was permitted by the People's Bank to have its deposit returned and to wind up its affairs, yet we must admit that this is a blot on Shanghai private banks.

- 10 -

CONFIDENTIAL
Security Information

/The 20 Banks Which Liquidated/

<u>Location of Bank</u>	<u>Name of Bank</u>
Yunnan	Yangtze Industrial, Overseas Chinese, K'un-ming, I-hua
Hunan	Fu-shing, Hung-hsing
Szechwan	Ch'eng-tu, T'ung-hsin, Yu-k'ang, Hui-t'ung, Yung-sheng, China Industrial and Mining, Fu-hua
Sikang	Chi-k'ang
Philippines	Chung-hsing
Shanghai	Hua-wei, Kuo-hsin, Shanghai Iron, T'ai-ho-hsing, Sheng-ta Trust

From the above list we can see that the main offices of most of these branch banks were not in Shanghai. I do not have enough data to figure out the reason for their closing. I simply know that the main offices of several had already closed, and there was no expedient to fall back on. Some could not communicate with head offices through lack of facilities. In several banks the important officers and property had been moved from Shanghai long before liberation, and so there was no person and no strength to support an increase of capital. Moreover their roots in the Shanghai community were exceedingly weak, and in transactions with the trade and industry interests liaison was still more inadequate. Of some it may be said that after the liberation of Shanghai they had no business. For instance, the Shanghai Industry and Mining Bank had not once paid its employees, from the liberation until the bank was dissolved. Besides this, some banks were closed without any special financial reason.

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

For instance, the Ch'eng-tu was closed because it had not completed its former duty of guaranteeing tax funds. The Chung-hsing Bank because it disobeyed orders, had its status as a foreign exchange bank revoked. For five banks including the Hua-wei, the chief reasons for their closing were personnel quarrels (like the stockholders' quarrels in the Shanghai Iron Bank) and lack of capital.

Why was it that the announcement of the liquidation of 20 banks had no effect on the general market? According to a rough surmise, these 20 banks, around the 10th of September, gave out every day receipts in exchange for the gold quota, but the sum total was only about 300,000,000 yuan, this amount being only one-third of [that held by any of] the larger private banks. At the same time, looking at it from the viewpoint of the receipts exchanged for the gold quota in relation to the total amount of deposits, the total of deposits in these 20 banks also was only about 300,000,000 yuan; so they had very little effect on the total market.

As to the work of liquidating these banks and money-shops, the Chinese People's Bank had already worked out a plan which was assigned to each bank to carry out, such as allowing the liquidator two months in which to complete the liquidation. One would suppose that these banks would have had little difficulty. The difficulty would come afterwards. How would these several hundred workless employees make a living? I hope that the bank authorities can take care of them properly without transgressing limits, and the bank employees' union should make every effort along the lines of welfare and study, so that these unemployed may within a definite time go on effectively taking part in the reconstruction work of the "New Democracy."

- 12 -

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

Private banking in Shanghai has already arrived at the early stages of reform; its useful capital has already become stronger than before. No matter what the outcome after examination and approval by the chief financial and economics bureaus, the immediate duty before private banking in Shanghai is how to thoroughly carry out the "Temporary Method for Controlling Private Banking in the East China Region." In concrete terms, it is how to cause capital to be used in productive occupations for the benefit of national plans and the people's livelihood. Recently some banks and money-shops have been preparing to grant agricultural loans, and most of them have had federated banking loan offices set up for helping private cotton mills buy native cotton. All these are important and proper steps. Besides, the private banks should all make careful research and exert practical efforts towards restraining underground money-shops and restraining the return of cheques, etc., as legislated in the Method of Control.

25 September 1949.

- 13 -

~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

FINANCIAL SPECULATION MUST BE SEVERELY PUNISHED

I.

On 17 November an officer of the East China Finance and Economics Committee truthfully said, "The speculative activities which rested on the remnants compradore feudalism, after being suppressed for a while, are recently spreading out again. Particularly, there is a small number of yet unawakened speculators, who are still carrying on black-market exchanges of all sorts, that harm the economic order." Really, in the most recent tempest of prices, we have seen speculators on all sides noisily shouting up prices. And so most people hoped the government will severely restrain these speculators who harm the people's livelihood. At last the government has received the people's demand and given severe treatment to speculative activities, especially the illegal underground money-shops which practice discount loans, those banks and money-shops which disobey the law by speculating, and those who disturb the market by recklessly issuing worthless cheques. And they have already reaped rewards in the stabilizing of prices and the market.

If all speculative activities use the remaining strength of compradore feudalism as their support, then all speculative activities would seem to have to rely on currency speculation for "blood transfusion." Now, in the present transition stage, when the fear psychosis of currency inflation, left over from the reactionary regime, has not been entirely wiped out and the new currency policy has not yet been fully grasped by the people, currency speculators still have a chance to become an important link in speculative activities. For this reason the Common Program contains a currency policy which gives the following warning regarding currency speculation: "All who speculate in currency and harm the nation's currency operations should be severely restrained."

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

We certainly should remember that after Shanghai was liberated on 27 May, because of the false shouting up of prices of gold, US notes, and silver dollars in currency speculation, prices were increased several-fold within half a month. Prices only stabilized after the "Certificate Center" which was the heart of currency speculation, was broken up on 10 June [1949], and this ten year ailment, caused by gold note leadership of prices, was halted. For the past six months, through the cooperation of the government and people, the gold note black-market exchange does not basically affect the prices of goods, although it is not yet wiped out. This is what is meant by the East China Finance and Economics Committee spokesman who pointed out: "Speculative activities have been suppressed for a while." But this present severe suppression by the government of currency speculation ought to be followed by a second suppression! In order to arouse public attention and caution, it is necessary to discuss these currency speculations, particularly the harmfulness of underground money-shops and illegal banks against the national economy and the people's livelihood.

II.

Long ago the government fully perceived the harm of illicit loans by underground money-shops. Therefore, on 21 August, in the "Temporary Method for Controlling Private Banking," it was enacted: "Illegal financial organs which do not follow these provisions and which arbitrarily do business shall in addition to being closed down be given necessary punishment." For three months the government took no action toward halting these currency speculation activities, perhaps because the existence

- 15 -

~~CONFIDENTIAL~~
Security Information

of these activities was brought about by the long-term reactionary regime and the government wished to allow a suitable length of time for these speculative elements to "awaken." Meanwhile they gathered the bankers and traders and industrialists for a conference, exhibiting the government's determination to curb these speculative activities. Then at last when these speculators persisted in their blindness, and caused tumult, disturbing the market's tranquility and harming the people's livelihood, the government had to call a halt. The harm of the underground money-shops lay in: 1) their illegal transactions, so that they were not under the control and supervision of the finance control office and the blind depositors had no protection whatever; for example, the Chen-hsing food company which closed down in September, had only 80 million yuan coming in from the banks, but loans illegally borrowed amounted to 230 million! (roughly equal to the combined deposits of five small banks). It has not been able to pay off these loans yet. This affected credit in the community: 2) because of their speculative character, they must participate in all kinds of commodity and currency speculation. They are the capital-assigning agency for all market speculations, and the chief criminals in falsely raising commodity prices and destroying market stability. 3) They raise the interest-rate, creating black-market interest-rates, quickening currency turnover, causing proper trade and industry banking to suffer harm.

Therefore, these underground money-shops that illegally make loans must be completely destroyed. But besides the government's use of executive power to halt them, the entire population and every firm and business must add their help. We saw that after the government on 25 October

16
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

seized 20 odd of these underground money-shops, speculative exchange on the market stopped (or at least diminished); interest-rates came down; deposits in regular banking rapidly increased; prices also began to level off. Such conditions were advantageous to the entire population and to every firm and business. It follows that everyone ought to strive to help the government to destroy them and to guard against the conditions by which the underground money-shops survive and grow. From the viewpoint of banking, all ties with underground money-shops should be severed. A study should be made of their clientele to determine whether there are any bogus names among them or to find large amounts received or paid by individuals or firms. During the process of gradually getting rid of underground money-shops, we must give proper heed to the capital needs of legitimate trade and industry. From the viewpoint of trade and industry and the whole population, relations with underground money-shops should be refused, and they should be reported to the government.

III.

Again, a grave currency speculation goes on in legally administered private banking [firms] despite their legal status. Such currency speculation conduct is just as harmful to the national economy and the people's livelihood as are the underground money-shops. The sources that cause this speculative conduct are, to use the words of the deputy manager of the Each China branch of the Chinese People's Bank, Ch'en Mu: 1) hangovers from the reactionary regime; 2) planning for self, neglecting "solicitude for public and private"; 3) looking only at the immediate present, forgetting the future (2 December, all newspapers). In the recent turmoil

- 17 - **CONFIDENTIAL**
Security Information

of prices, lasting over a month, beginning with 25 October when the Ta-sheng bank failed, there followed in turn the Heng-li, T'ung-hui, Hui-feng, Ch'i-ch'ang, and last the Hua-mou [bank failures]. The reason for failure was wholly because the chief officers used their position to cover speculation and lost, and most of them had still no way to settle up. And so today the paper tells how the Heng-li officers, recklessly using bank funds, postponed settlement, harming the welfare of the depositors, and were sent to the People's Court under the provision "any who disobeys the provisions of this Method, affecting market stability, and harming the people's livelihood shall be punished according to law." That is a statement from the "Temporary Method for Controlling Private Banking in East China Region." This was wholly necessary.

Besides, there were 56 private banks and money-shops which disobeyed the provisions of the "Temporary Method for Controlling Private Banking in the East China Region," and were punished in accord with the merits of the case, by the East China branch of the Chinese People's Bank. Those punished by warning, fines, or shift of important officers, numbered 27; by halting of exchange of negotiable paper one to seven days, 22. Those which originally should have been closed forever, but because they later gave heed to employees' livelihood and which expressed willingness, on behalf of their employees, hereafter to help the government carry the currency policy, and, on behalf of the officers, confessed faults, were punished with temporary suspension as each case called for. There were 7 such.

- 18 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

IV.

The monetary policy in the Common Program is correct. The reconstruction of private banking [called for] in the "Temporary method of Controlling Private Banking in the East China Region," the stabilizing of currency, the supporting of production, the protecting of proper community credit, all these objectives are entirely necessary. Officers in private banks should deeply accept this serious lesson and promptly strengthen their organization, regularize the transactions, uphold production; and the entire body of employees should exhibit the progressive character of the labor class, striving to extend the nation's monetary policy. All must ever be free from this erroneous impression of supposing that the government's present leniency in punishing disobedient banks and money-shops will naturally continue. In my personal opinion, the government's lenient policy has a limit and conditions. Because today the government and all the people are all resolute in this common demand, currency speculation must be severely punished!

5 December 1949.

¹⁹
CONFIDENTIAL
Security Information

CONFIDENTIAL

THE DIRECTION OF MOVEMENT IN PRIVATE BANKING

As is well known in August of last year (1949) Shanghai's private banks and money-shops numbered in all 174. At that time capital was increased and they were registered in accord with the "Temporary Method for Controlling Private Banking in the East China Region." From completion of registration to the beginning of February this year, in a period of about five months, 17 had closed for various reasons. So beginning with 6 February, the day when US imperialism and Chiang's bandit gang indiscriminately bombed Shanghai, until today, 7 April, in the space of about two months, more than 50 private banks and money-shops in Shanghai have closed. Because of this comparatively concentrated closing, and due to the fact that banking is by nature a community enterprise, there is on all sides deep concern with the direction it takes.

What causes the comparatively concentrated closing of Shanghai private banks and money-shops? I claim that basically, (except for former business as which were managed according to the objectives of imperialism, feudalism and bureaucratic capitalism, except for those banks and money-shops which ran into trouble because they did not make the necessary changes called for by the almost complete elimination of bureaucratic and feudalistic capitalism), the direct cause must be blamed on the indiscriminate bombing by US imperialism and Chiang's bandit gang. As a result of bombing, electric installations were damaged, causing difficulties in industrial production, thus bringing about a near collapse of economic activity. The survival of banking depends on the survival of

CONFIDENTIAL
Security Information

trade and industry, and this relation is true of its prosperity or decline. Under such conditions, the business of private banks and money-shops began to contract, and because some loans were not promptly recoverable, the turnover of capital became more difficult.

The second reason is that the amount of private banking in Shanghai was too large to start with, and not proportionate to real need. As of 5 February, Shanghai's private banks and money-shops still numbered 157 (not including joint State-private and foreign commercial). This number was just twice the pre-war figure. Now when the government, in order to liberate Taiwan and Tibet, to make secure the people's livelihood, and to give heed to economic reconstruction on a national scale is striving for financial balance, for control of inflation, and for stabilizing of prices, the shrinkage of private banking is truly an unavoidable tendency, because private banking has been inflated by more than 10 years of abnormal prosperity. And among the 50 most recently closed, the vast majority are small-scale ones, with an extremely weak basis in capital and confidence. According to data of 4 February, the sum total of deposits in these 50 banks and money-shops was only 1/10th the entire amount of deposits in private banks and money-shops on that same day, (this is about the amount of deposits in two fairly large private banks). But as regards number the 50 make up just about 1/3 the total; as regards number of employees, they account for one-fourth of the total of banks and money-shops. In other words, these banks represented few deposits but much expense.

Next to that is the fact that some of the private banks and money-shops had not yet been reoriented. They were in new environment but kept their old customs, such as 1) only thinking of their own immediate

- 21 - **CONFIDENTIAL**
Security Information

~~CONFIDENTIAL~~
~~Security Information~~

profit, and being unable to plan for the nation and the future; 2) having no plan in the use of capital; 3) making loans without careful scrutiny, but purely on a personal basis; 4) not being simple and frugal, but wasting personnel and material resources. This was seen more in officers who ordinarily snatched power and profit, but when they faced with trouble they blamed one another, and even ran away. Such conditions were most clearly visible in the 50 banks and money-shops that closed.

The Chinese People's Bank, private banks, labor and capital are all greatly concerned over these bank closures. Were it not for this concern and their efforts, today's conditions would be more serious.

Under the leadership of the finance workers' union, the employees of private banking enterprises have seen clearly the troubles of private banking at present. In a discussion on 3 March, they arrived at the same conclusion as the members of the preparatory committee of the bankers' association. At the same time they proposed a practical method for overcoming difficulties, founded on the principles of self-renewal and profit to both labor and capital. This plan was, on the part of capital, to find a way to have adequate capital, actively practice simplicity and austerity, thoroughly change the direction of the management of business; on the part of employees, to increase efficiency in work, strengthen labor discipline, under certain conditions reduce wages. Due to employees' recognizing the source of troubles and in order to secure the co-operation of capital in overcoming difficulties, wage reduction has already been put into effect in many banks and money-shops.

- 22 -

~~CONFIDENTIAL~~
~~Security Information~~

The bankers' association, representing capital, has achieved some results in pushing the government's fiscal policy. At present they are conducting a bond-sale movement. As to their present internal troubles, besides urging other banks to conquer troubles, they have, on the basis of mutual help, assisted individual banks and money-shops in the turnover of capital. They have also represented the entire body of private banks and money-shops in conferences with the finance workers' union on labor and capital cooperation to overcome present temporary troubles. But it should be pointed out that except for a few banks and money-shops which have begun to replenish capital, revise their affairs, and practice simplicity and austerity, the general run of banks and money-shops have not tried hard enough; some have done nothing at all.

The Chinese People's Bank has its own important task of reconstructing national financial affairs. But because the direct cause of private banking's present troubles is the bombing and blockade by US imperialism and Chiang's bandit gang, the People's Bank is giving them the utmost help. Examples are: Extending the period for making up receipts and covering the deficits; handling limited mortgages, increasing the time for inter-bank loans for joint loans on mortgages; raising interest rates on reserves against deposits, etc. These measures assuredly enabled some banks and money-shops to pass through the temporary troubles and gave an all-over easing of serious conditions. On 31 March, it suddenly supported the relaxing [of discount loans] to member banks as arranged by the bankers' association, thus allowing the whole body of private banks and money-shops to pass through what was admitted on all sides to be a serious day.

CONFIDENTIAL
Security Information

Without doubt, the present troubles of private banking are serious. But likewise these troubles will have a day of solution, as is indicated by very recent developments such as the stabilization of prices by financial and economic unification. The increasing of anti-aircraft work will reduce the threats and damage of air attacks. The gradual restoring of electric power will by degrees increase the volume of industrial production (the cotton textile industry has already returned to its pre-February 6 level). Moreover, the dull season for mercantile goods will soon be over, and the Trade Bureau's planned movement of goods will cause the volume of market exchanges to increase. The largely completed payment for government bonds and a gradual reduction of interest will also stimulate the movement of capital in all lines of business. These turns of events will without doubt hasten the betterment of private banking and, by degrees, unfreeze the loans which for the time being cannot be recovered. Judging by the rise in deposits in private banks in two days, we must say that a beginning is already apparent.

Therefore, just let the men engaged in private banking not lose their confidence, not cherish the memory of an abnormal prosperity that will never return; genuinely recognize the interests of public and private, the profits of labor and capital, and the government's monetary policy; and strive everywhere and promptly to replenish their capital, set their business in order, and practice simplicity and austerity. Then, not only will present troubles be overcome, but there will be future development. And the employees of private banks and money-shops, under leadership of the finance workers' union, will, of course, continue to manifest the positive nature of the working-class and the

the sacrificial spirit which puts endurance of suffering first and enjoyment of happiness afterward. The workers will join with capital to overcome the obstacles which lie along the path to victory. And they [capital] will strive to the utmost to help the unemployed to learn and will give them necessary help towards livelihood.

We hope for the most basic and efficient method of overcoming the present troubles of private banking -- a prompt setting up of collective discussion by labor and capital in private banking, in order to overcome the present temporary troubles. For this is just the time for us all to go forward boldly, obeying in common the slogan of Chairman Mao: "There are troubles; there is a way; there is hope."

7 April 1950.

- 25 -

CONFIDENTIAL
Security Information

CONFIDENTIAL

Security Information

HOW OVERCOME THE PRESENT TROUBLES OF PRIVATE BANKING

As to the causes of the present concentrated closing of private banks and money-shops in Shanghai, I already have expressed my understanding in the article "The Direction of movement in Private Banking," namely, that basically Shanghai's private banks and money-shops were built on the economic foundation of imperialism, feudalism, and bureaucratic compradore capitalism. After liberation, imperialist strength was expelled and bureaucratic compradore and feudal strength were nearly wiped out, but the rank and file of private banks and money-shops had not yet been thoroughly reformed, and the direction and form of their business management had not been promptly taken in hand, so that they were plunged into serious difficulties. As to the immediate cause, we must first blame US-Chiang indiscriminate bombing, because as a result of bombing, electric installations were damaged, causing difficulties for industrial production, and thus was created near-collapse for all economic activity. Under these conditions, the business of private banks and money-shops was greatly curtailed; and because some loans were not recoverable, the turnover of capital became sluggish. A second cause was that there were in Shanghai more private banks and money-shops than were needed. As of 5 February this year, there were still 157 private banks and money-shops in Shanghai (not including joint State-private and foreign commercial), and this figure was just twice the pre-war number. At present, because of the government's efforts to liberate all China, to restore and develop economic reconstruction on a national scale, to strive for financial balance, to take hold of monetary inflation, and to stabilize prices, there is truly an unavoidable tendency

CONFIDENTIAL
Security Information

for private banks and money-shops to encounter troubles and drift towards closing, especially those banks which have for more than 10 years been supported by currency inflation and the small and medium banks whose capital and credit foundations are comparatively weak. Further, looking at general conditions in the 60 50% closed banks and money-shops, we explained that some, although in a new environment still maintained their old customs, such as lack of planning in the use of capital, loaning without severe scrutiny wholly on a personal basis, person and affair, and being wasteful of human and material resources, etc.

It should be pointed out that because some of the capital groups in private banking have already sought to replenish capital, overhaul business operations and simplify operations and because some employees have raised the efficiency of their work, strengthened their labor discipline, and to proper amount reduced their wages, and because the Chinese People's Bank has extended all possible accommodation in raising interest-rates on bank deposits by member banks and arranging transfers of mortgages and loans on mortgage, etc., there has been a mollifying of private banking's present troubles and relief from concentrated closing. But this cannot be taken to mean that the troubles of private banking are already over. Just the contrary. The present troubles of private banking not only remain, but are also quite serious.

Therefore how to overcome the troubles now existing in private banking becomes an urgent problem for immediate attention.

When discussing this problem, we must indeed genuinely estimate the conditions in private banking itself; but equally important, we must recognize that the entire economic environment is also an objective

condition. Thorough implementing of financial economic unification and the proper reform of trade and industry is a problem that has been proposed, and planning started by the government (of course including banking). And so, coolly and objectively to understand the function of private banking in the entire economic activity, both now and hereafter, and the conditions of its own survival and possibility of growth, is a work which both capital and labor in private banking should at once engage themselves in. As to this matter, some of the capital group have already mentioned the problem of "advance" and "retreat." I myself, am in sympathy with such a study, because whether looked at from the viewpoint of the whole nation's benefit, or personal advantage or looked at from the viewpoint of the settling of the closed banks, the attitude that private banking must now "advance," while not casting aside an orderly "retreat" (but avoiding a planless, orderless, vacillation) should be adopted.

Because the hardships imposed on us by the enemy, and the ruinous situation in the process of changing the social and economic order are transitory, after all China has been liberated, trade and industry properly reformed, and land-reform entirely carried through, the whole economic picture should gradually change for the better. For this reason, objective conditions exist for private banking to adopt a workable plan of "advance." But subjectively, there first must be self-renovation and courage and confidence in labor-capital cooperation in a common fight. After this there must be at once a replenishing of capital. Along with this, thorough simplicity and austerity must be attained to ensure there

- 28 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

will never be again an increase of damage. In the management of business, besides correcting of past old habits, judged by present conditions, the Tientsin type of a number of banks federating for mutual help might be adopted.

Finally, I mention again here the most effective method of overcoming private banking's present troubles, the prompt setting up of private banking labor-capital collective conferences on how to overcome present temporary troubles!

23 April 1950.

- 29 -
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

CONTROL OF BANKING IN POST-LIBERATION SHANGHAI

I.

1949 -- this was the great year of the Chinese people's victory -- had already passed, and 1950, "with troubles, with plans, with hopes" is already beckoning to us. At this time, our banker friends perhaps have some need to review Shanghai banking since liberation, and this will perhaps have some meaning.

As is well known, 1949 in Shanghai needs to be marked off into two periods: before 27 May, the period of the reactionary regime; after 27 May, the period when the people themselves grasped power. In this [latter] period, the imperialist power and bureaucratic capital were expelled, and the "New Democracy" financial system was founded. The speculative activities and speculative persons of the ruined national finance system were beaten down and subjected to severe restraint; this is to say that banking was already being re-ordered, and, under the efforts of both labor and capital, an attitude of serving the people and a direction of business to support production was already by degrees being set up and furthered. Deposits grew; 130 banks and money-shops obtained abundance. These cases fully demonstrated that private banking in post-liberation Shanghai was already expanding; and this expansion, basically speaking, was created by the "New Democracy" economics policy. But speaking frankly, it was pushed through by the banking control policy under the people's government's simultaneous supervision and guidance. So my essay will start from here.

- 30 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

II.

For convenience in writing, I will subjectively demarcate the post-liberation banking control work of the people's government, into three periods.

The first period, from 27 May to the end of June 1949, is the period of the government's confiscating the bureaucratic capital in the financial system and attacking gold and silver speculation, introducing People's Banknotes into the market to create prerequisite conditions for expanding production and making economy prosperous. The tools of the Four Big Clans for scraping the people's fat and grease; -- namely the Chung, Chung, Chung, Chiao, Nung, Anh-chu, I-k'u; the Kiangsu, Suning, Chekiang, Taiwan, and Shanghai -- five province and city banks -- and those which appeared as private ones, such as the Shansi Yü-hua, Ya-tung, Kwangtung, etc., were all taken over; the Chung-shih, Ssu-ming, Tung-shang, Hsin-hua, and the Kuo-huo (these five being government-mercantile joint banks), were all re-organized after being supervised and reformed except the Kuo-huo, which was finally taken over. At the same time, all private banking was ordered to freeze all the capital belonging to the Four Big Clans and reactionary officials and also all property and credits belonging to same, for later disposition. This action of confiscating the bureaucratic capital in the financial system and returning it to the people's possession was indeed a liberation of banking. Next came the attack on gold and silver speculation. On the 10th of June a blow at the "Certificate Center" gave the People's Banknotes a real foothold in the Shanghai market, and from that day onward, the money business began to have the prerequisites for expanding its operations. Besides this, it must be mentioned that because Shanghai

CONFIDENTIAL
Security Information

is the economic heart of the nation, the people's government gave it special consideration and Shanghai banks stopped business only two days because the flames of war were approaching the city; and on 2 June resumed the exchange of negotiable paper. This did not happen anywhere else.

The second period, July and August, is the period of preparation for the work of control, and also of drafting and publishing the "Temporary Method for Controlling Private Banking in the East China Region."

The "Temporary Method for Controlling Private Banking in the East China Region" was published on 21 August. Before publication, the government had humbly sought the opinions of the banking people, having called discussion with bank officers on 9 July; and on 11 August a discussion with bank employees. Not only did it exhaustively set forth the people's government policy for the control of banking, but also received from all sides views as to sphere of operations, credit control, and especially on the amount of capital. Following this, there were successively published, on the basis of the "Temporary Method for Controlling Private Banking in the East China Region," the following: "Method of Applying for Registration and Examining of Capital," "Method of Combining Hidden Accounts with Regular Accounts," "Temporary Method for Restraining Return of Cheques," "Method of Turning over Deposit Reserves," etc. Special among them were the draft provisions of the "Method of Combining Hidden Accounts with Regular Accounts," and of the "Method of Applying for Registration and Examining of Capital": such as overlooking of the past concerned with hidden accounts; promising the

CONFIDENTIAL
Security Information

redemption of a portion of gold when, for the increase of capital, there was not enough cash on hand; fixing the sources of cash in the increase of capital; authorizing borrowing when cash was being examined for the increase of capital, etc. They did their best to take into consideration actual conditions. This is not to be compared with the forcible measures taken during the reactionary regime.

Furthermore, during this period there was a big event. Namely on 12 August, the People's Bank, seeing that prices were then steady, but that market margins were shaky, in order to avoid stimulating prices and also to look after the use of the capital of banks and money-shops, arranged inter-bank short-term fixed deposits, and decreed that when currency was short they could use deposit receipts and borrow from the People's Bank. On the very first day, more than 50 banks and money-shops went to deposit. This measure was of great help at the time, in stabilizing prices, and in the operations of banks and money-shops.

The second period, from September to December, is the period of performing the work of supervising and of removing obstructions.

The Method of Control published on 21 August, provided a time-limit of 20 September for applying for registration and examining of assets. By that time, banks and money-shops which had closed through lack of resources or of willingness to increase capital numbered 20, including the Fu-hua, the Yangtze Industrial.

One-hundred seventy-two banks and money-shops had finished adding to their capital (besides, six whose head offices were not in Shanghai, had arranged this at those respective localities) and in the latter

- 33 -

CONFIDENTIAL
Security Information

third of September the People's Bank, East China branch, began examining assets. Because some banks and money-shops had not yet changed their habits of cleverly speculating, more than 60 banks were discovered by the East China branch bank to be engaged in illegal practices, and because of this the period of examining was extended by two months. When punishing these disobedient banks, the East China branch also sought opinions from the banking fraternity; and according to successive newspaper reports after 28 November, banks and money-shops debarred from exchanging negotiable paper numbered 22, those punished with fines and reprimands numbered 27. Besides, the Ch'un-mou and others which were to have been closed permanently numbered 7; but because of appeals by employees, and an expression of repentance and self-renewal by the capital side, this was changed to temporary suspension.

Then after the Ta-sheng money-shop failed, on 25 October, because of losses in speculation, within November four banks, the Heng-li, Hui-feng, T'ung-hui, and Ch'i-ch'ang, were ordered to close because of illegal speculation. The same thing happened at the beginning and end of December to the two banks, Hua-mou and Yung-t'ai, which were guilty of gross disobedience. Of these 7 banks and money-shops, save for the Ta-sheng, Hui-feng, and Hua-mou, which had already fully paid off their deposits, the other four could not clear up or had not yet cleared up. Under the said conditions, the government's sending the officers of the Heng-li, T'ung-hui, and Ch'i-ch'ang to the courts for legal treatment was suitable and necessary, because not only were they scoundrels in banking, but also they had destroyed the market's even keel and had harmed the people's livelihood.

31
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

This was the aspect of supervision.

As regards the removal of obstructions, on 24 September, under leadership by the People's Bank, with the cotton textile industry as objective, the "Shanghai Bank and Trust Federated Loan Office" was set up. It was participated in by 172 banks and money-shops, organized with 4 billion yuan capital. With a view to helping private banking, the People's Bank is to direct private banking's resources towards investment in production, and to permit, in times of currency shortage, all banks and money-shops which have entered the Federation Loan Office to ask short-term loans from the People's Bank, the amount to be limited by their agreed-upon loans. [Text rather obscure]

At the same time with the above, under leadership of the People's Bank, a "Banking Business Interest-rate Committee" was set up.

At the beginning of December, the People's Bank, in order to promote production and ensure credit, started exchange of negotiable paper.

On 14 December, the Shanghai Banking Federated Loan Bureau was inaugurated. This went a step further than the Federated Loan Office which was started on 24 September. This organization included the People's Bank and State-private joint banks and money-shops, and trust companies, 168 in number. It was organized 12 billion yuan of capital. Its loans were not limited to business enterprises, but they had to be used for production. At the same time, as regards the banks and money-shops which had joined in the Federated Loan Office, it still permitted them, in times of currency stringency, to ask the People's Bank for loans 4 times a month.

- 35 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

The opening of the second federated loaning place, and the starting of negotiable paper exchange, abundantly demonstrated how actively the People's Bank has led private banking along the road of supporting production.

As to individual banks and money-shops which invest their capital in production, the people's government also helps all that it can. For instance, in August, Shanghai's Chung-hsin Bank issued as agricultural loans, 30 tons of fertilizer, bought with 15 million yuan; and the local government and people's bank assigned cadres to help handle the transaction.

Two other big events of this period should also be pointed out:
1) the attack by the government on 25 November against underground money-shops. This action not only had considerable usefulness in stabilizing prices and settling the market, but also greatly helped the expansion of private banking operations. 2) Banking employees step by step revealed the active nature of the working class, using the procedures of examining and supervising to help the government carry through its policies.

III.

Since liberation, among the government enactments about banking, we should fully understand the government's policy of control of banking. The basic spirit of this policy of control is made manifest in the monetary policy of the Common Program: "Legally operated private banking business should receive the government's supervision and guidance." The facts of the last 7 months show us that the work of supervision is necessary and should continue right on; the work of guidance has been done, and has reaped its reward. We should also review for a moment

- 36 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

the government's attitude while pushing its policy. It is an attitude of humility, carefulness, and of solicitude for the interests of all sides. For example, when drafting the "Temporary Method for Controlling Private Banking in the East China Region," when penalizing disobedient banks and money-shops, in setting up the Federated Loan Bureau and attacking underground money-shops, there were each time convened discussion-groups, to hear the views of all sides, and all these opinions were separately received. This procedure in the administration of government, toward private banking which for so many years deeply suffered from a reactionary regime, should receive sympathetic notice.

The year 1949 is over. The year 1950, "with troubles, with plans, with hopes," is just coming in. How private banking may the better understand and extend the government's fiscal policy, is the goal for the year 1950!

5 January 1950.

- 37 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

SHANGHAI FINANCE IN THE YEAR SINCE LIBERATION

Shanghai has been liberated just one year.

Shanghai is the economic heart of the nation, and at the same time the area where imperialistic and bureaucratic compradore poisonous hangover is the deepest. Therefore while we cherish the strongest enthusiasm in talking about Shanghai's finance in the year since liberation, we recall with unlimited indignation the ugly face of Shanghai's money market before liberation.

I. Nature and Features of Shanghai's Money Market Before Liberation.

Because Shanghai had suffered imperialistic and bureaucratic comprador capitalist regimes for a whole century, there resulted a special abnormal colonial form of economy. On the one hand, imperialists and bureaucratic compradors controlled financial, communications, public utilities and other important enterprises, the necessary power for industry (hydroelectric power and fuel), raw materials (cotton, food, etc.), and even the market and capital looked up to imperialism. On the other hand, the broad laboring class endured the pains of oppression, exploitation and unemployment, and the genuine native capital traders and industrialists for a long time could not hold their heads up. Thus was created Shanghai's so-called "prosperity"; thus Shanghai was made the economic heart of the nation, and so the nation's financial heart. Looked at from this angle, Shanghai's financial market presented the following special features:

1. It was the heart of financial filching by imperialists and the Four Big Clans.

Since 1857 when the British imperialist Me-chia-li Bank began in Shanghai, imperialists of every nation relying on extraterritoriality

CONFIDENTIAL

and protection by the unequal treaties, started banks in Shanghai; using trade with China as a mask, bringing along their ample capital, and using compradors to absorb China's big deposits and issue banknotes and manage Chinese and foreign bonds and stocks, and enjoying traffic in bullion and exchange, and such privileges, they controlled Shanghai's and the whole nation's finance. For example, trading among foreign banks and their exchange brokers became the exchange mart for Shanghai and indeed for the whole country. When currency was in shortage, Chinese banks had to look to the so-called "Bund Bank." Of course this status of extreme domination was somewhat curtailed after World War II, 1941 - 1945, but however that may be, the foreign banks' domination and their influence in and around the Shanghai money market still existed.

On the other hand, the tools which were used by the Four Big Clans for scraping the people's fat and grease -- the Chung, Chung, Chiao, Nung, Erh-chu, I-k'u, and the Kiangsu, Su-nung, Chekiang, Taiwan and Shanghai -- five province and city banks; and the Shansi Yu-hua, Ya-tung, Kwangtung and Tun-yu banks, masquerading as "people" managed and the so-called "government and mercantile jointly run" Chung-shih, Ssu-ming, T'ung-shang, Hsin-hua, and Kuo-huo, were all concentrated in Shanghai, chief among them being the bogus Central Bank. They used the technique of inflation as accomplices of imperialism to carry on their savage squeezing of the Chinese people. At the same time, in order to fool the broad masses, and thus the more easily do their cruel filching, they put through their "Currency Reform" and "Price Ceiling Policy," during the wicked inflation of currency; and their "Gold Control Policy," which tried to thwart the people's actions to preserve values and protect themselves. But the people's eyes are shining clear; all these

CONFIDENTIAL
Secret Information

CONFIDENTIAL
Security Information

measures could not in the end reverse their fate of death. In the five months between January and May 1949, the price of gold in Shanghai soared 140,000 fold, that of US banknotes 160,000, that of silver yuan more than 70,000. Of course, in such a spiralling of money and of prices, the Four Big Clans used the "National Banks" as a tool to extract from Shanghai inestimable wealth, the people's blood and sweat.

2. The abnormal growth and extreme crowding of private banking.

Before liberation there were in Shanghai alone, 203 private banks, money-shops, and trust companies, (exclusive of "joint government-mercantile" and foreign-commercial banks). Among them were the so-called "Southern Four" and "Northern Five" big banks, whose branches covered the nation. For several decades they belonged basically to comprador capital, and were in part linked with bureaucratic capital; another portion were money-shops, whose capital came mostly from the villages, and for a long time had been joined with commercial capital, and therefore had entirely sloughed off their feudal character; besides, at the end of the war, a portion of currency capital pushed into Shanghai from the hinterland, and relying on the support of bureaucratic capital, formed in Shanghai the so-called "Szechwan Provincials' Group"; there was also a group of speculative money capitalists who arose in the period of the regime of Japanese imperialism and Wang Ching-wei, who not only continued their activities in the banks after the war, but also still had considerable strength.

Of course, due to this very filching by the Four Big Clans, the actual strength of private banking became poorer each day. And because of excessive currency inflation, activities in the speculative market,

- 40 -
CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

and fierce acceleration of the flow of money, banking really became purely an exchange center for negotiable paper and ready cash. Banking dropped from its original character, and lost touch with the large savings class, and its connections with trade and industry weakened. And banking then depended basically on speculative activities for survival. Not only could it not aid production, but contrariwise really hindered the growth of production.

3. The madness and universality of speculative activities.

As a result of the protracted monetary inflation, all Shanghai was transformed into a speculative town; and money speculation became more fierce and prevalent than any other kind. The Gold Exchange and what was originally intended to be an Exchange for securities of the capitalist market, were the two contemporary public legal speculation arenas. The former had 74 registered members, but the transactions it handled outside of the arena were numbered in the tens of thousands. It was at that time the command-post for all Shanghai markets, and basically it was in the hands of the bogus Central Bank. The latter enrolled more than 100 brokers, but there is really no way of estimating the extra-arena empty buying and empty selling. Like the Gold Exchange, the Securities Exchange was also dominated by certain bureaucratic capitalist circles.

Besides these two big financial speculation arenas, there were also 184 silver shops, semi-public markets for foreign stocks, secret groups for cornering exchange (chiefly Hong Kong exchange), big and small shops for trading in or exchanging gold, US notes, silver yuan;

- 41 -

~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

and also "Avenue Yellow Cows" [probably a term for curb manipulators].

Besides all this, there was an upsurge of underground money-shops and private [i.e., secret] loaning. This followed the soaring of commodity prices and the rise of interest-rates (the highest black-market interest reached 1200 yuan per 1000 yuan per day). Under ordinary conditions, underground money-shops and private loaning transactions already exceeded the total of bank deposits; and in times of currency shortage, even four or five times the sumtotal of such deposits.

Under these circumstances, the bogus Fapi [Nationalist banknotes] and bogus Gold Certificates could no longer be the chief method of paying out; so in the market, gold and US notes, and even cotton yarn and rayon served as scrip. This was especially true of silver yuan. It is estimated that there were five million silver yuan in Shanghai at that time which served as currency and freely circulated. Moreover, because the black-market in gold, notes, and silver yuan took the lead in the prices of things, the livelihood of the great multitude of working people was seriously damaged.

4. Leadership function for the whole nation.

Based on the features named above, it was inevitable that Shanghai lead all China in matters of finance. For the finance of the Four Big Clans hinged here; the imperialist financial plundering was centered here; private banking organs were concentrated here; fifty percent of the whole nation's bank deposits was here; added to which 60 percent of the country's light industry was centered here, and 50 percent of nation's customs dues were collected here. Thus Shanghai became the financial

-12-
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

center for the entire nation. But this center was not indigenous for the service of the people. This function of leadership was only to accommodate the pilfering by imperialism and bureaucratic capital; it was essentially against the people.

Such was the character and features of the pre-liberation Shanghai financial market.

II. Financial Market and Financial Enterprises in Shanghai in the Year Since Liberation.

Facing this reactionary and complex Shanghai financial market, the work of the Finance Department of the Military Control Committee of the Chinese People's Liberation Army and of the Chinese People's Bank was stupendous; but relying on the correct leadership of the Communist Party, relying on the support of the multitudinous people, within a year, like the progress in all military, political, and economic matters, finance has moved from extreme tumult towards stability. The Shanghai money market also has turned from an anti-people character to serving the people and production.

During the past year, the change and reconstruction of the Shanghai money market has in the main gone through the following steps:

First period: from liberation in May to the end of June. Events in this period were: Take-over of the Four Big Clans' financial organs, in toto; preliminary setting up of the "New Democracy" finance system; attack on note and silver yuan speculation; introduction of People's currency into the market; stabilizing of prices.

Second period: from July to September. Events in this period were: underground nibbling at gold and note speculation still lingered,

- 43 - **CONFIDENTIAL**
Security Information

CONFIDENTIAL
Security Information

but under scrutiny and attack by both government and people, there was basically no effect on the market; publication of the "Temporary Method of Controlling Private Banking in the East China Region," and the beginning of implementing the work of supervising and removing of obstacles, in private banking; the People's Bank strongly supporting production and exporting.

Third period: from October to January of this year. Events in this period were: forty days of price fluctuations between the early part of October and the later part of November; monetary speculation (especially trouble-making by underground money-shops) which gave rise to price speculating. Because of popular demand and for the good of the people, the people's government on 25 November made a sharp attack on the speculating elements. On the other hand, after preliminary reform of the ranks of private banking, a large number of banks and money-shops which had been speculating illegally received proper punishment. The entire face of the money market was now changed.

Fourth period: from February to May. Events in this period were: after finance-economics unification throughout the entire country, inflation was stopped, prices were stabilized, speculation hid its tracks, and the rate of interest plunged rapidly; Shanghai felt the effects of the 6 February bombing, and faced temporary difficulty; there was some closure of trade and industry and of banking that was weak in capital; but after the third all-circles' delegates' conference, because government and people worked hard together, the entire situation took a turn for the better. The Chinese People's Bank effected control of ready cash, and got big results, also actively removing obstacles and organizing fluid capital, to help production resume and expand.

CONFIDENTIAL
- 44 - Security Information

CONFIDENTIAL
Security Information

Let us again relate from four sides the change and reconstruction of the Shanghai finance market in the past year.

1. Taking over and putting in order the Financial Organs of the Four Big Clans.

Beginning with 27 May, the 7 "National Banks" headed by the Central Bank, namely the five province and city banks, Kiangsu, Shanghai, Chekiang, etc.; and Shansi Yu-hua, Ya-tung, Kwangtung, etc., which masqueraded as being managed by "the people"; and the five "joint government-mercantile," Chung-shih, Ssu-ming, T'ung-shang, Hsin-hua, and Kuo-huo (except the Kuo-huo, which was finally taken over) were all supervised, reformed, and then re-organized. Simultaneously, the whole city's private banking was ordered to freeze all capital belonging to the Four Big Clans and to reactionary bureaucrats, and all property and credits so owned; and to await disposition [of same]. Also the hidden enemy property of the Tun-yu money-shop could not in the end escape seizure under the people's laws.

After the reform, the Chinese People's Bank has become the exclusive bank for handling and controlling foreign exchange.

After the reform, the Bank of Communications has become the exclusive bank for handling and controlling long-term investments.

After the reform, the Chung-shih, Ssu-ming, T'ung-shang and Hsin-hua have become joint public-private banks, enterprises which are national capital in character. Under leadership by the People's Bank, their habits have been changed, and their business has sped forward.

- 45 -

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

2. From the Attack on Money Speculation to the Extinction of Money Speculation

Because of the fierceness and prevalence of gold and silver speculation caused by the currency inflation of the reactionary regime, (the people's distrust of currency also was a continuance of money-inflation's fear psychology, increased by behind-the-curtain control by economic agents) within ten days after liberation, the value of silver yuan jumped 160 percent and prices were raised all around. This destroyed the credit of the People's banknotes, and harmed the people's livelihood. Facing such conditions, the Communist Party and the people's government, using the 5 June Liberation Daily's "Quickly wake Up, You Speculators Who Disturb the Currency and Control the Silver Yuan" as a slogan, aroused the workers, students and folk of all classes to begin educating and propagandizing. When at last these efforts still did not cause speculators to wash their hands, they had to receive the multitude's demands and make a destructive attack on the "Certificate Center," which was the heart of speculation in bullion. On the other hand, the People's Bank began to do a big business in receiving and changing silver yuan; also because of the need of paying out a corresponding amount of currency in return for the silver yuan taken in, they started real-value deposits, so as to remove obstacles.

From that day on, bullion speculation was basically defeated, and prices began to drop in proportion. The ailment brought by 10 or more years of reactionary rule, namely that gold and notes should lead commodity prices, was conquered.

- 46 -

~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL

Security Information

On the other hand, important financial speculative activities were the madness of underground money-shops which practiced illegal loaning. Underground money-shops started because of wicked inflation of currency. After liberation, not only did it survive, but also caused added tumult when prices several times jumped up. The people's government early understood the danger from underground money-shops to the national financial business, and so long before, in the "Temporary Method for Controlling Private Banking in East China," the east China military headquarters on 21 August had clearly enacted: "All illegal financial organs which do not obey these provisions and wilfully do business shall be closed and besides given necessary punishment." After this order was published, the government did not take action against these financial speculative activities, perhaps because these activities were going on due to the lengthy reactionary regime; so they gave them a suitable period in which these speculators could come to their senses. But when these fellows failed to awake, and still more caused disturbance, rocking the market and harming the people's livelihood, the government was obliged, on 25 November, to call a strict halt on 26 underground money-shops. The result was that speculative exchanges in the market ceased, interest-rates came down, and legitimate bank deposits shot up, and because of other adjustments also, prices began to level out.

In addition, serious speculative conduct still occurred in private Banking. After 25 November when the Ta-sheng money-shop failed, so did in succession, the Heng-li, T'ung-hui, Ch'i-ch'ang banks, Hei-feng money-shop, Hua-mou bank, Yung-t'ai bank; in each case the cause was the

- 47 - **CONFIDENTIAL**
Security Information

CONFIDENTIAL
Security Information

important officers using their positions to divert deposits into speculation; the more heinous cases were sent by the finance authorities to the courts for judgment. Also there were 56 banks and money-shops which disobeyed the provisions of the "Temporary Method for Controlling Private Banking in the East China Region," and were punished as each case merited by the east China branch of the People's Bank: warned, fined, or deprived of chief workers, 27; required to forego exchange of securities, 1-7 days, 22; and for 7 which were to have been permanently closed, but later because of the authorities care for employees' livelihood, and an undertaking by each respective bank's employees to help the government in future carry out its policies, and confession of error by the bank officers and intent of repentance and self-renewal, the penalty was changed to temporary closing.

The attack of 10 June on bullion speculation, the restraint on underground money-shops of 25 November, and the halting of illegal speculative practices by private banking; and the people's government's measures against these financial speculative activities are entirely in accord with Article 39 of the Common Program, which says: "All who speculate with money, destroying the national finance operations, shall be strictly kept in check." Further because of the thoroughgoing maintenance of this policy, and after its being adjusted to the nation finance-economics unification, the checking of inflation and basic stabilizing of prices, financial speculative activities were basically wiped out. This change in character brought the Shanghai money market into union with production, and truly into service for production. This can be

- 48 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

proved from the fluctuations in interest-rate during the past year. In November the posted rate for interest on loans was at the highest 60 yuan, while the black-market rate reached 120 yuan. Beginning with January of this year, black-market interest which had lingered on for more than a decade was wiped out; and the interest-rate today, 23 May is just what it was in 1943.

Data on interest-rates in the year since liberation.

DATE	MONTHLY HIGH	MONTHLY AVERAGE
June 1949	30.00 yuan	22.40 yuan
July "	25.00 "	21.23 "
August "	25.00 "	17.37 "
September "	12.00 "	11.13 "
October "	13.00 "	11.63 "
November "	60.00 "	31.90 "
December "	40.00 "	20.97 "
January 1950	16.00 "	12.87 "
February "	15.00 "	13.66 "
March "	15.00 "	9.39 "
April "	7.50 "	4.53 "
23 May "	1.00 - 1.30	

3. The establishment and expansion of the People's Bank

Credit must be given to the leadership and efforts of the People's Bank in the stabilization and the reformation of the Shanghai finance market. During the one year, since the establishment of the People's Bank and its subsidiaries on 30 May of last year (1950), branch agencies have been established in 219 places and over 7,400 employees have been hired to serve the people and to aid production.

Shanghai production businesses faced severe difficulties especially when these activities were influenced for a long period by imperialistic and bureaucratic capital, in addition to the harbor blockade after liberation which was followed by threats of air attacks. Under these conditions, the People's Bank not only took on the responsibility of taking over

CONFIDENTIAL
Security Information

enemy's puppet agencies, stabilizing the currency market, and fixing prices, it also put forth great effort to give great support to various types of production. Since the early days of the liberation, effort was also made toward the restoration of hydro-electric powers and communications. After loans were set aside for public utilities, direct support of industries and business began. The Bank sought for the solutions to difficulties in distribution of industrial products, and to hasten the money and material flow between urban and rural areas. At the same time the bill of exchange was adopted. Following this, solutions were found for loan difficulties of private money exchanges and for the contradictions found in the shortage of money in industries and businesses. This was done by taking in the certificates. Within one month, 239 certificates were received.

In taking one step forward to support production, the People's Bank also caused private money agencies to organize an agency in which all would place their money. In September, a united cotton purchasing loan department was set up. This department was joined by all of the private banking, exchange and credit firms in the city. The total capital was 4 billion yuan. The People's Bank also undertook to transfer mortgages at the time when silver was being withdrawn. In twelve months, the People's Bank consolidated the two banks, China (chung-kuo) and Chiao-t'ung (communications) and directed the privates bank and exchanges to organize the finance houses joint depository. The total capital was 12 billion yuan. Loans to be made was not limited to the banking industry, but they were to be used for production. At the same time, those banks and money-shops which joined the depository, were able to request for loans from the People's Bank at time of financial emergencies.

CONFIDENTIAL
- 50 - Security Information

CONFIDENTIAL
Security Information

Therefore, it cannot be denied that there are results in the People's Bank's direct support of production and the support of private bank and exchange funds for production.

On the other hand, an important success of the People's Bank is found, its execution of the controls of government agencies' cash. After placing into effect the policy of economic and finance unification, the Government Administration Council placed the responsibilities of controlling the funds of the nation's enterprises on the China People's Bank: such as to carry out the control of cash and the changes in the accounting system, to hasten the return of coins, and to cut down on the withdrawal of cash. The deposit in the Shanghai branch of the People's Bank in April was six times the amount of the deposit in February.

Since the beginning of the control of the cash of the nation's enterprises, the People's Bank continued to put forth effort in working toward the focal point of liquidation and trust loans. Naturally, money became stabilized.

4. Reorganization of private banking

After the liberation of Shanghai, there were a total of 203 private banks and money-shops. Not long after, five of these voluntarily discontinued their activities. On 21 August, the "Temporary Methods of Controlling Private Banking in the East China Region" was published. It was established that requests for registration and examination of capital were to be made by 20 September. By the deadline, twenty agencies including Fu-hua and Ch'ang-chiang Realty were not able to or did not wish to increase their capital.

- 51 -

CONFIDENTIAL
Security Information

CONFIDENTIAL

Security Information

After 178 banks and money exchanges completed their registration of capital (56 agencies received punishment because they did not uphold the regulations), Sheng-ta, money-changer was bankrupt in October; four banks and money-changers, Heng-li, Hui-feng, T'ung-hui and Ch'i-ch'ang were ordered to close in November; Hua-mou and Yung-t'ai received orders to close in December; and from the time increasing of capital was completed to 5 February 1950, a total of fifteen agencies closed. Since the sixth of February after the bombing of the electrical power plant industrial productions were endangered, thus causing a portion of the loans by private banks and money-changers to industries to be frozen. As a result, it became difficult not only to manipulate the capital, it also caused great loss. At the same time, prices became stabilized, interest rates dropped, the basic capital and trust of the medium and smaller banks and money-changers became weak and it became difficult for them to hold on. Therefore from 6 February to 23 May, 83 organizations closed down. The 91 remaining in business were:

- 4 - jointly operated public and private banks
- 39 - private banks
- 34 - money changers
- 3 - trust companies
- 11 - foreign commercial banks

At the time when so many of these financial houses closed, the People's Bank raised the interest rates of like businesses, undertook to transfer mortgages of like businesses, lengthen the period to make up for the deficiencies, and other such actions.

- 52 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

As the People's currency became stabilized, the deposits in the private banks and money changers gradually increased, and the fluctuation of deposits decreased. At the same time, under the guidance of the People's Bank, a large portion of the capital was routed into production industries, as shown in the following figures:

Chief objective in investments - industrial firms (percentage of the total investment):

August	1949	62.41
September	"	60.07
October	"	59.87
November	"	59.73
December	"	62.21
January	1950	60.50
February	"	60.57
March	"	70.14
April	"	69.58
6 May	"	71.27

It cannot be denied that today Shanghai banking is facing serious difficulties. The basic method to overcome the difficulties is to follow the spirit set forth by the third People's All Circles Delegates Conference, that is: to set industries and businesses in order, to seek agreement between labor and capital, to readjust the relationship between public and private, and other such activities affecting banking. Both labor and capital of the money business are putting forth great effort, it is reported.

25 May 1950.

- 53 -
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

JOINT MANAGEMENT OF PRIVATE BANKINGS

No matter what may be said, the matter of joint management of private banking is worthy of emphasis.

During the past six months, some 90 privately operated banks and money-shops discontinued operations. This is a very great change. The main causes which created this change were that in March, when the national economic unification activities were expanded, inflation of currency was halted, prices of commodities stabilized, rates of interest lowered, and in addition, the US-Chiang blockade and bombing gave rise to temporary difficulties. Thus, private banks and money-shops, especially the medium and small money-shops which had relied during the past ten years on currency inflation and abnormal circumstances, became unstable and had to close. In a changing society it is not possible to avoid such conditions.

After June, conditions became less adverse. It may be considered the end of one stage, on the basis of Mayor Ch'en's statement, "The finance and economic conditions of the entire nation are becoming better. Most recently, Shanghai industries and businesses have been making new expansions." At the same time, this resulted from the adherence of industrial and business money agencies to the decisions of the Third Shanghai People's All Circles Delegates Conference to reorganize activities and to negotiate between Labor and Capital. This is sufficient to prove that the decisions of the Third Shanghai People's All Circles Delegates Conference are entirely correct.

From a few figures on the changes in deposits and loans, it may be seen that conditions for private banking are gradually becoming better. Deposits are increasing. Loans are also increasing. At the

CONFIDENTIAL
- 54 Security Information

CONFIDENTIAL
Security Information

same time, however, industries and business especially were in difficulties thus creating "crazy accounts," but by the end of May, the figure [of "crazy accounts"] was 14 percent lower than that of April. Thereafter, unfreezing continued. From another point of view, confidence in the market gradually became normal, and the use of banking capital thus became greater.

At this time [July], 12 private banks, 10 money-shops and two trust companies in Shanghai separately organized the First and Second Joint Shanghai Banking Association for the purpose of joining together to carry on business.

According to my understanding, the Private Joint Banking Preparation Association had the following experiences: Prior to three months ago when legitimate private banks and money-shops were terminating their businesses, especially when society lost faith in private banking in general, a group of the rather strong medium and small money changers gathered together to work toward maintaining the people's trust. Their basic aim was for self-preservation, or for self-defense. After the Shanghai Third People's All Circle Delegates Conference was held, a group of private banks and money-shops began to reorganize, to economize, to replenish capital and other such general indications. Labor, in recognition of both temporary benefits, long-run benefits, accepted unemployment, less benefits, and also an increase of work. As a result, much progress was made. At the same time, the economic and financial conditions of the nation gradually became better, and industries and

- 55 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

business began to pass the crisis. The trust of labor and capital both struggling together have increased, therefore, the organization of the Joint Association on 1 July indicates progressiveness.

Examining the Joint Association, according to its by-laws, we can say:

1. The basic responsibilities of the Joint Association are stated in the by-laws: "To strengthen the union of like agencies, use concentrated power of planned activities to support industrial and commercial enterprises, complimented by the new democratic economic policies." This is the basic responsibility of private banking in the new democratic economy. This is the only direction in which private banking must struggle and expand.

2. The important conditions for becoming a member of the Joint Association are: (1) "the agency itself must have a surplus, or it must have surplus after covering losses with capital;" (2) "labor and capital are in harmony;" (3) "They must show general progress as a result of austerity and economy." A large group of industrial and commercial enterprises should be equipped with the above three conditions. Discussing this from the banking point, to secure the trust of society, it is most important to have a balance in credit and debit. The power resulting from cooperation between labor and capital has already been proven. To seek stabilization and expansion, banking should see clearly its aim to accumulate capital: economize in order that the nation's economy may become balanced and that accumulated capital may take steps to expand production.

- 56 -

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

3. The two phases of the activities of the Joint Association pertain one to the members, and the other, to the association. The important points to be carried out by Association members are: (1) "to actively expand the activities, to obtain sufficient capital, and to carry out economic auditing system;" (2) "to withdraw 10 percent of their deposits, to set up the lowest gold exchange rate for joint loans, with gradually increasing ratios;" and (3) "to prepare and distribute various charts and reports to exchange information on the objectives and rates of loans, and other reports on related activities for the purpose of seeing that the use of capital is free from any risk which might result from discussing rather large loans with the association committee." These few points explain that the association makes joint loans of specific amounts, also aids, and changes the practices of, member banks and money-shops in their use of capital. One of the most important points is to overcome the past practice of private bankings of making loans blindly (such as, to make loans on bases of personalities and not on facts, to make insufficient investigations, etc.). These loan aims set forth by the China People's Bank have been accepted by private banks and money-shops.

4. The democratic committee system is used in the Joint Association. It has the following offices: secretariat, accounting, business affairs, enterprise planning, receipt and expenditure, and training. One of the regulations, "When said association committee convenes, responsible persons of the labor union of the association shall be requested to attend," reveals that labor and capital relationship within private banking has made a great step forward.

- 57 -
~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

The joining together of private banking is a new undertaking. We, therefore, must not make too great a demand on the Joint Association. If in the early stage, the activities stipulated in the constitution are carried out, it will be considered that a great step forward has been made. Thus, with the accumulated experience, more progress may be expected. Here, we must, for the purpose of pointing out the responsibility of the association to its member banks and money-shops, clearly and logically set forth the controlling factors. If such steps are not taken, it would be difficult to get the member banks and money-shops to support the association organization. This point is not brought up in the present constitution.

To conduct business jointly is a method and not an aim. It is an activity which will continue for a long period of time. Therefore, a long range plan should be made. At the same time, all newly created activities are confronted with difficulties. To overcome the difficulties, there must be a sufficient amount of confidence. After the Joint Association was created, the continuance of strength and unity was needed. Mutual training and mutual supervisory aid in making reforms was required. It was necessary to exchange experiences among the members of Joint Association. We must again struggle blindly, because the age of blind struggle has passed.

It is of prime importance that the Joint Association see how it can tie up its activities with policies of the People's government to expand production, support industries and commerce. Whether private banking will expand, which is the same as saying whether the Joint Association will expand, depends on how they decide to help industries and commerce.

3 July 1950.

CONFIDENTIAL
Security Information

- 58 -

~~CONFIDENTIAL~~
Security Information

ALL CHINA FINANCE BUSINESSES JOINT CONFERENCE AND PRIVATE BANKING

On 1 August, the All China Finance Businesses Joint Conference which was held in Peiping was an unprecedented incident in the annals of China's financial business history. This conference of very great significance was held at a time when prices throughout China was stabilized, conditions in industries and commerce were becoming better, and people throughout China were achieving success in their struggle for the betterment of economic conditions. On the basis of the results, the conference, which consisted of ten days of study and discussion, was considered a great success.

The main reason for the conference was to unite public and private financial strength, and to support the expansion of industrial and commercial production. Under this general objective, the chief topic of discussion was to seek closer relationships between financial businesses and industrial and commercial enterprises, between public and private financial businesses, between labor and capital within the financial businesses, and then to reach mutual understanding, as follows:

1. As to recognizing the common responsibilities of the financial businesses, it was recognized at the conference that the common responsibilities are to support production and to develop economic. It was also recognized that the present national financial and the economic conditions have already begun to turn for the better, and the new era in which financial businesses will support the expansion of industrial and commercial production has arrived, and that hereafter the financial businesses in absorbing capital must strengthen their relationship with the depositors; in supporting production, the relationship with industrial and commercial businesses should be closer.

~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

2. With regard to the financial world the conference was agreed that in line with support of industrial expansion, the financiers have room for a great growth since at present the currency market is not keeping up with the requirements of industry.

In Peiping and Hankow, for instance, cooperation between industry and financiers has not been very close. Industry has been able single-handedly to expand under the improved conditions accompanying the government's economic policy. However, in the future, this expansion will depend upon the conditions prevailing in each company and will be determined especially by the improvements made after this conference.

3. The conference was agreed that private financial organs must reform and discard their hidebound practices in order to progress. They should completely dispense with the methods of operation growing out of the profit motive developed under a reactionary regime and should develop new business procedures, reorganize their set-ups in the direction of simplification and austerity before they can expand.

4. The conference was agreed that both public and private financial organs ought to expand in a common effort. Failure of the total financial structure to keep pace with the needs of the expanding economy calls for a coordination of public and private finance for expanding their business in common on the basis of assisting production. If private financial organs are oriented to the support of industry and commerce, the government bank will give them guidance in re-arrangement of their business, in the expansion of exchange business, the easing of goods exchange between urban and rural areas, in guaranteeing remittances and deposits, in executing mortgage transfers and re-discounts, thus 1) removing the worries of private financial organs in the period

~~CONFIDENTIAL~~

of change accompanying conversion to support of industry and commerce, and 2) lubricating the circulation of capital in times of stringency. Without question this national conference of financial organs was concerned with the direction which private banking business is to take in the future. Hence it is hoped that all those concerned with the operation of private financial institutions will study this document. Banking associations, financial unions, and the responsible officials of all financial organizations should promote this activity to assure the general spreading of this spirit and carrying out of the resolutions. In view of what has been set forth here, what follows should be given special heed.

I. To Cease Blind Competition

As trade gradually becomes better, legitimate trust returns, deposits increase, and people in private banking begin to have more confidence. In addition to the encouragement given at the successful conclusion of the All China Financial Businesses Conference, various plans were made to start and expand the business. Originally, this was a good phenomenon, but out of this a condition of blind competition also came into existence. Many of the banks and money-shops have already forgotten their painful experiences. They do not seek to expand on solid ground; they use commission as bait; and they hire personnel without justification. They also adopt measures which are against the regulations by increasing interests and credit facilities in order to compete for more deposits. If such tendencies of blind competition are not stopped, the consequences will be very serious. We recognize that competition among the finance businesses is necessary, but such

⁶¹
~~CONFIDENTIAL~~
Security Information

with aid of industries and commercial businesses, investigations shall be made as to the use of the loans in order to guarantee that the production plans will be fulfilled." We recognize that basically Shanghai's joint loan activities have not expanded. In order that loans may better complement policy, strengthen the loan planning, and be adaptable to pre-and-post-harvest periods, to market fluctuations, and to the needs of increasing industrial and business capital, we must take a step forward and support joint loan activities.

III. Strengthening of Joint Activities

The joint participation of private finance businesses was started because, before April, private banks and money changers had begun to terminate their operations. In order to gain the confidence of society, they began to organize joint operations. The People's Bank and others recognized that the mergers were a step in the right direction, and thus these organizations gave appropriate support. But during the past two months, joint operation activities have not made very good progress, that is, the by-laws of the joint operation have not been practiced. For instance: "aggressively expand business activities, supplement capital, and carry out economic auditing system." Have these been done? "member organizations are to place at least 10 percent of their funds in the joint account, and ratio is to be on a graduated basis." Has this been conscientiously put into effect? Joint operations are to increase the power of similar businesses. Within the joint operations, are there conditions in which blind competition exists? We recognize that these problems should arouse us to reexamine the activities. The

- 63 -
CONFIDENTIAL
 Security Information

CONFIDENTIAL
Security Information

China Finance Businesses Conference recognized that the joint operation method should be expanded. It is also recognized that "Continuous efforts must be made to motivate those banks and money-shops who wish to organize but have not yet taken the action. Therefore, we recognize that the most important responsibility placed before the joint operation association is none other than the self-binding by-laws set up by the joint operations.

IV. Simplified Reorganization of Large Banks

At one time, the All China Finance Businesses Joint Conference had before it a problem pertaining to labor-capital-management within private banking. This actually was a private banking organization personnel negotiation problem. At the conference, it was requested that the private banking basically set in order its organization, expand business affairs, economize and change its attitudes. It was pointed out in an article printed in the Peiping Jen-min Jih-pao, "The practices adopted during the currency inflationary period by private banking must be reorganized, in order that finance agencies, personnel, expenditures, and other such items may be changed so that new conditions may be brought about in order to stabilize currency." In relation to this problem, we realize that all of the banks in Shanghai are in a rather serious condition. Labor and capital should expand production, follow the principle of benefit for both labor and capital, and bring about disposition through negotiation. As brought out in the Peiping Jen-min Jih-pao, the government control agencies will aid in seeking solutions to the problem.

- 64 -

CONFIDENTIAL
Security Information

V. Support the Establishment of Investment Firms

Investment firms resulted from merging finance, business and production. The All China Finance Business Joint Conference was in favor of this expansion. Also, the Peiping Speculation Company [?] was established on 1 September. We recognize that, under the present economic conditions in large cities like Shanghai, conditions to establish investment firms have already been prepared. The establishment of investment firms will naturally aid the recovery and expansion of production activities directly, and the recovery and expansion of the production activities will aid to expand the finance businesses. Thus, private banking should itself, actively motivate the organization of investment firms, so that these firms will be realized within the shortest period possible.

In general, the All China Finance Businesses Joint Conference has definitely pointed out the direction for private banking. By following not only segments of, but the entire program, the All China Finance Businesses Joint Conference, private banking will be able to expand in the right direction.

2 May 1950.

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

HOW FINANCE BUSINESSES AID THE FLOW OF NATIVE PRODUCTS

One of the most important financial activities of this year is to promote the flow of native products in order to stimulate urban and rural economy.

The flow of native products is a most complicated organizational activity. It involves buying, transporting and selling and also such activities as trade, cooperatives, transportation and finance revenue. According to the reactions from various sides, in the activities pertaining to the flow of native products, the problem of capital fund occupies an equally important position, therefore, the support of finance businesses is necessary. This was pointed out by an official of the East China branch of the People's Bank on 25 February (1951) at the Finance Businesses Joint Conference who reported: "Speaking of All China, it is more important to promote the flow between rural and urban areas than to directly support production. According to Shanghai conditions in general, a large portion of the capital in Shanghai, of necessity, must be used to support industrial production, but a portion should be used to promote the flow between urban and rural areas. At the same time, to promote the flow between urban and rural areas is indirectly aiding the expansion of industrial production. At present, the many private finance businesses, which are concentrated in Shanghai, may expand toward the interior with the flow between rural and urban areas. This would be a great benefit to the private finance businesses."

Effort has been made by the Shanghai finance businesses to support the activities pertaining to the flow of native products. During the past year the Shanghai branch of the People's Bank had prepared 10,062

CONFIDENTIAL
Security Information

CONFIDENTIAL

port bills of exchange, over 66 percent of which were of private concerns. In November and December of last year, the resolution was passed that public and private joint banks and private banks and money shops should help the East China public and private operated plants of the Joint Cotton Purchasing Agency with 55 billion yuan circulating capital. Public and private joint loan departments made 252 billion yuan worth of loans after 28 December of last year to the above mentioned Joint Cotton Purchasing Agency, and also a 5½ billion yuan loan was made to the Shanghai Joint Feathers Purchasing Agency. At the same time, activities dealing with bills of exchange gradually increased with banks and money shops as a whole. Public and private banks, and private banks and money shops negotiated contracts with transport firms and other agencies related to native products. Joint Association Number 1 of the private finance businesses and the various native products industries held a forum, and also formed a relationship with the Joint Ham Industries Association. All of the above indicates the fact that finance businesses have, in their action, supported the movement pertaining to the increase flow of native products.

To take a greater step forward in aiding the flow of native products, it seems that finance businesses should study and put into action the following:

1. The finance businesses in aiding the flow of native products should place emphasis on helping the industrialist and the distributor to solve their difficulties in obtaining and purchasing native raw materials, and in the transferring of capital when distributing industrial material into rural areas. The most outstanding method would be to use

- 67 -
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

the bill of exchange. In this, the Shanghai branch of the People's Bank has already taken steps forward in making such arrangements, that is, it has established a bill of exchange service desk, initiated a plant-commerce pre-negotiation register, brought down interest rates on bills of exchange, and increased transportation insurance services, etc. Public and private joint operated and private operated banks and money changers should expand their bill of exchange services at the appropriate time, and emphasize the following: (1) Because of the transportation conditions of the comparatively smaller cities, villages and towns, the procedures in the handling of regular bills of exchange are involved; therefore, studies should be made of the actual conditions under which buying and selling of native products are made in order to set up accommodations for bills of exchange, which is the same as buying and selling credit outside of ports. (2) Medium and small banks and money shops do not have branches; therefore, they do not have facilities for handling bills of exchange. Thus, relationships may be established among like businesses within or outside of the same port in order to solve some of the difficulties. At the same time, the Shanghai branch of the People's Bank is studying methods as to how to use its 216 correspondent banks to aid private banks and money shops to handle their affairs pertaining to bills of exchange. (3) Bill of exchange interests should be handled in accordance with changes in the general conditions.

2. The flow of native products is a long term activity. In order to have a better plan to aid the flow of native products, the Finance Businesses Staple Products Guild must direct and organize like businesses in such activities. The reasons are as follows: (1) The Finance

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~

Businesses Staple Products Guild is a member of the Industrial-Commerce Joint Association. After it has participated in the Industrial-Commerce association and has attended related native products conferences, it will have a broader understanding of the business conditions of the various businesses (including joint purchasing organizations) and the conditions pertaining to the flow of native products. (2) After conditions are understood (such as, the amount of capital needed, when and where the products must be bought and sold, etc.), plans may be made so that the finance businesses may be able to act accordingly. According to previous practices, there was insufficient interest between the finance businesses and the native products industries, thus a gap was created. Hereafter, finance commodity prices would naturally become basically stabilized, but the flow of capital may still be influenced by supply and demand, and thus create fluctuating condition. If the finance businesses are able to hold on to the bulk of the capital material, this condition may be avoided. (3) According to past experiences, especially among the weak native products purchasing organizations, no provisions have been made for lending agencies; therefore support from finance businesses was not obtainable. Henceforth, after the finance business guild and the industries-commerce association have joined together, the deficiencies of the various joint purchasing agencies may be pointed out, and these deficiencies may be corrected in time. Thus, finance business aid may be gained.

Two directing and organization methods may be carried out at the same time: (1) From the information sent out to all of the banks and money shops by the Finance Businesses Guild on the conditions pertaining to the flow of native products and related businesses and joint

CONFIDENTIAL
Security Information

purchasing agencies, all of the banks and money changers may make progress, at the same time with objectivity and confidence, and aid the flow of native products; (2) Through the finance businesses joint leading agency, raise a specialized fund, and at the same time, establish relationships among the twenty Shanghai agencies related to the Joint Native Products Association, in order that the greater portion of the capital loans will go through the lending agency.

Thus, in directing and organizing the banks and money shops to aid the flow of native products, the Finance Businesses Guild will begin to make progress in aiding banks and money changers to become lending agencies.

3. At present, some of the miscellaneous capital on the market appears not to have any outlet or not to be able to find an outlet. How to direct and organize this capital so that it will aid the flow of native products is a problem worthy of some study. According to the present conditions, it is hoped that the finance businesses and industries and commerce will join together to study the problem as to whether there should be formed an organization, with a nature similar to that of a speculative firm, with the aim of promoting the flow of native products.

In general, finance businesses should strongly aid the flow of native products so that the nation's financial and economic conditions will become basically better, and so that our Resist US-Support Korea-Protect the Nation Movement may be carried through.

31 March 1951.

- 70 -
CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

DIRECTION TOWARD WHICH BANKINGS HAVE BEEN PUTTING FORTH EFFORT IN 1951

I.

The All China Finance Businesses Joint Conference which was held in Peiping in August of last year (1950) pointed out that the responsibilities of the private bankings were to support industries and commerce, and also to expand production. In putting forth effort in these responsibilities, the private bankings will have a great future. At the same time, in taking these responsibilities, private bankings will of necessity carry out reorganizations.

In the six months since the conclusion of the All China Finance Businesses Joint Conference, great strides have been made by private bankings, especially since the economic and financial conditions of China are becoming increasingly better, with the leadership and support of the China People's Bank, and in relying upon the efforts of the private bankings. In examining the East China District, during the past six months, deposits have increased 70 percent, loans have increased over 60 percent, and exchange within China have greatly increased because the flow between rural and urban have increased. In the 1950 final statement of account, with exception of a segment of agencies, people and financial activities which have not made any progress therefore failed, the majority of the banks and money changers in East China maintained a surplus. At the same time, during this period, private bankings have also put forth effort and made great stride in working with stabilized finance and prices and with the reorganization of business affairs transactions.

- 71 -
~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

But, old practices and the old system still remained in the private bankings. This was particularly serious in illegal speculation, and in such actions as seizures and high interests which have not ceased. In various areas in East China, various speculative actions as the following has been uncovered: boosting of interests, establishing hidden accounts, privately cutting off loans, hoarding in order to raise prices, and upsetting the market. The more serious culprit were Chu-k'ang-hsing, Money Changer of Shanghai and Te-fu, Money Changer of Shao-hsing. The China People's Bank has already dealt with these agencies individually in accordance with the seriousness of the offense.

From these facts, we recognize that if private bankings are able to carry out the financial, economic and money policies of the nation, to accept the leadership of the China People's Bank, and to make necessary reforms, private bankings will be able to survive, to expand sufficiently, and to receive support. Otherwise, they will cause their own destruction if they act contrarily to the nation's finance, economic and money policies and continue with speculative disturbances.

II.

In 1951, the momentous political responsibility of the Chinese people is to resist US, to support Korea and to protect the nation. In economic and financial activities, the responsibilities are to bolster previous successes, stabilize money and commodity prices, and to restore and expand industrial and agricultural production systematically. The China People's Bank will take a step forward to strengthen the control of currency. This is done to fulfill its responsibilities to support

- 72 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

industrial and agricultural production. First, private bankings must recognize thoroughly the aims of this great plan before they may be implemented on the former foundation and in the actual business transactions.

I, therefore, recognize that in 1951, private bankings must put forth effort toward the following:

1. To bolster the stability of money and commodity prices, to support production activities profitable to the national plan and the people's livelihood, and to support trade activities which facilitates the flow between the rural and urban areas, besides putting forth effort in expanding deposits and exchange activities, private banking must use its capital carefully and effectively complement the various financial and economic arrangements of the government with the market conditions of a specific time and place. Therefore, the following should be carried out: (1) According to the general conditions of the various areas, the points where capital will be placed shall be decided upon. It may be placed where it will support trade activities affecting the flow between rural and urban areas, or where it will support production activities. The banks and money changers near the rural areas may be able to put forth great effort to support agricultural production. (2) The joint lending agency shall continue to expand under the leadership of the People's Bank. In about one year, the twelve joint lending agencies in East China have floated a number of loans during the past year, and results are outstanding. Hereafter, progress should be made toward the expansion of the organization, the establishment of sufficient capital,

- 73 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

a healthy system, and the betterment in the procedures for better results in making loans. (3) Banks and money shops should, at an appropriate time, establish a sound loan system. At present, the decentralized power in the hands of individual business personnel's loan system not only give birth to blind action but also to corruption. Thus, the use of the capital of Banks and money shops must be standardized, a definite auditing system must be adopted to control it, and the investigation before, an inspection after the action, must be given attention. (4) To aid loan planning, various areas, according to their capabilities, establish a registry.

2. To take a step forward to join Bankings and industrial and commerce, private banking should study and carry out "joint working agreement" with industries and commerce. "Joint working agreement" is an accepted production plan, financial affairs plan, and a trust and loan plan used to motivate and guarantee a planned type of enterprise production. (To avoid financial difficulties in the use of capital) at the same time, it is also to motivate planned banking trust and loan to strengthen industrial and commercial affairs. This is, therefore, a contract beneficial to both industry-commerce and banking, and it is also directed for the people toward a requested plan. Naturally, it is not possible to universally push this method, but it is possible to systematically and with aim create examples, and accumulate experiences abundantly. Recently, individual banks and money shops have studied the problem and some have established deposit relationship with industries and commerce. In taking a step forward, some have agreed upon the "joint working agreement." We hope that in this work a certain amount of results may be achieved in 1951.

- 74 - **CONFIDENTIAL**
Security Information

CONFIDENTIAL
Security Information

3. The freezing of Chinese assets in the US and embargo on trade with China has had a direct effect on foreign exchange banks resulting in heavy decrease of profits and reduction of exchange deposits and releases. This in turn results tightness in loan business. At the same time, these banks have failed to adjust their organization, personnel, and capital in accord with the situation, resulting in hardship. These banking institutions must rid themselves of old capitalistic patterns of doing business, adopt the barter system in foreign trade and revise their organization to get out of the red, increase their fluid capital and adjust personnel and organizational plans without delay.

4. During the past 7 months, medium and small native banks have entered the joint operation program. At the end of 1951, thirty-nine of them showed profits, and evidence of progress. Nevertheless, many weaknesses are apparent.

Certain of the native banks that have joined the joint operations plan have not fully cooperated with the program and have, thus, hindered expansion of the group and reform among individual units. Such attitudes require immediate correction. This method of joint operations has become a fine economic instrument of the new peoples democratic system. The fifth regulation of the recently issued Government Administration Council's "Provisional Regulations Concerning Private Enterprise" particularly encouraged this type of development. Hence, present joint-operation organizations should be more firmly established and

- 75 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

leadership strengthened. There can be no lagging in thinking, in fact such lag must be opposed. The tendency in some joint-operation organizations to cover up law violations on the part of certain member firms can no longer be tolerated. Henceforth joint-operations groups must carry out their articles of agreement, increase their loan capital, improve their systems and stabilize their mutual supervision and inspection system.

In other cities of East China, such as Wu-hsi, Su-chou, and Hangchow medium and small native banks which were unable to make ends meet have voluntarily closed their business. Investigation reveals that remaining firms should immediately organize joint-operations groups. Naturally, before such organizations are set up, there must be reorganization and reform within the component units or the joint-operations program will be a mere formality and not result in any real help. From joint-operation to amalgamation was recognized as the natural path to be followed by the native banks during the All-China Joint Conference of Financial Institutions held in 1950. The idea was stated to the conference by Bank President Nau Hau-chen. Recently, certain members of the Shanghai joint-operations group have proposed amalgamation as a further step in the program of rendering fullest support to the increased production program.

5. In the above-mentioned conference, a resolution concerning a national control organ for all exchange business was offered and discussed. At the same time the matter of regulation of banking business capital was discussed and general agreement reached. When the right time comes this will be put into practice. In view of two recent

- 76 - **CONFIDENTIAL**
Security Information

CONFIDENTIAL
Security Information

proclamations of the Central People's Government, one on re-appraisal of property values and readjustment of capital and the other on provisional regulations for private enterprises, the private banking funds have all been considering the readjustment of their capital. Such a readjustment is patently necessary. No matter what time a business was established, from now, ideological and organic preparation should be going on and for the following two reasons: (1) Last years book closings revealed that Shanghai banks alone showed a profit of 20 billion yuan. This accumulation of capital should not be permitted to be dispersed. For the sake of their own future, the banks ought to pay regard to the 40 to 50 percent capital reserve from profits plan promulgated in 1949, although the People's Bank did not enforce the plan in 1950. Certain firms, that placed a certain portion of their profits into a capital expansion reserve on their books, are to be commended. (2) Definite plans should be laid for careful calculation of assets and practice of austerity, in order to overcome deficits, and sell unused assets and convert them into fluid capital. (3) If some firms are considering amalgamation in preparation for capital readjustment, such ideas may be discussed.

6. During the last year, the banking associations have been exerting all their strength to carry out government policies in many lines and with good results. Henceforth, they should take an advance step in concerted action to promote patriotic pact signing with a view to pushing forward speedy reform, and becoming a useful aid to government in carrying out its financial and economic policies.

- 77 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

At the same time, all private banking staffs should join the China Finance Study Group and study in company with their business colleagues of the government banks in order to raise the level of the business and be able to play a more important part in the country's economic reconstruction.

Let us unite to oppose American and aid Korea, preserve our homes and protect our country and fight for a basic improvement of our economy!

- 78 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

THE NEW DIRECTION FOR FINANCE -- COLLECTIVIZATION

(A speech delivered at the Shanghai Branch of the National Currency Study Society.)

1. Present Situation of the Private Banking Business.

Changes in the private banking business in Shanghai and the whole country since liberation may be divided into three periods.

a. From liberation to February 1950. During this period, the currency was still unstabilized, commodity prices fluctuated, old methods of opportunism persisted in the private banking business.

b. The second period extended from March to May 1950. During this period, currency was unified, prices stabilized and interest rates lowered. The spurious buying power of the public disappeared. After the bombing of Shanghai on 6 February 1950, ninety-three private banks in Shanghai closed.

c. The third period extends from June 1950 to the present. During this period, industry and commerce have gradually improved. Improvement has also taken place in the private banking business. At present, private banking interests show deposit increases of 130 percent over those of August 1950.

During the above period of change, private banking interests have come to recognize the importance of reform. Nine leading banks in Shanghai that have some public shares in their capital have invited the Peoples Bank to send representatives of public capital to aid in their reformation. At the same time, a number of medium and small native style banks organized four joint operations groups with good results.

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

Of the 203 private banks in Shanghai at the time of liberation, 63 remain open (not including public and private jointly operated and foreign banks). No other line of business shows such heavy casualties. Why? The answer is simple. In the old days of banking business depended upon fluctuating exchange rates and black market operations. During the Japanese puppet regime, and after the war, banks sprang up all out of proportion to any real need for them. Once the currency was stabilized, they naturally folded up.

Previously, outside the government banks, there were three types of banks in Shanghai: (a) Joint public-private banks with a high percentage of public capital. These are now under control of the Peoples Bank. (b) The nine banks mentioned above with a small amount of public capital, often called the "nine big banks." Of these, some have undergone reform, others are barely existing. (c) The banks in the four joint operations groups. They are wholly private banks with small capital. They are making varied progress in reform.

Foreign banks are steadily losing out and need not be discussed here.

What problems still remain for private banks? First, they do not have sufficiently extensive or close relations with industry and commerce. Of over 144,000 industrial and commercial firms in Shanghai, there are actually only about 50 to 60 thousand that do business with private banks.

Secondly, the private banks are too slow at carrying out needed reforms. Interest rates are maintained at too high levels. Business demands lower rates and the banks must adopt their loan systems to this idea.

CONFIDENTIAL
- 80 - Security Information

CONFIDENTIAL
Security Information

Thirdly, it cannot be denied that there are still a number of black market operators among the banks. The legitimate banking firms must take note of, and deal with this phenomenon.

2. Advantages of Collective Management.

Currency is the apparent coordinating medium of all economy. As a healthy blood stream promotes all bodily functions, so a good banking system promotes all the functions of industrial and commercial life.

A planned economy such as China is aiming at, must include both public and private enterprise. In a planned economic system, the function of private banking is to aid private industry to proceed toward a planned economy. Hence, private financial institutions must themselves change to a planned economy. How? This is where collectivization comes in. This subject was discussed at the 1950 National Financial Conference. Nan Hau-chen pointed out that collectivization is the correct direction. Till the present, no opposing voice has been raised. The joint public and private banks have already set up a collectivized control system.

Collectivized management by private banks can promote more extensive and closer relationships with industry.

The so-called "five new banks" under collectivized management can handle the requirements of their 31,000 customers with only one hundred staff members, instead of the 155 they would require under separate management. The remaining 55 can be sent out to drum up new customers. If each one secures 200 new customers (the estimated number he could serve in the bank) 11,000 new customers can be secured. So much for

- 81 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

the expansion angle. On the closer relationships angle, each bank operator will be responsible for dealing with customers engaged in the same business. He will thus be able to establish much closer relations with them than if he spread his activities over the needs of many lines of business.

Collectivization of capital is the best way to provide the financial strength needed to render the greatest help to industry.

Collective management saves manpower through elimination of duplication of effort. One treasurer can serve the needs of ten banks that had ten treasurers before.

Collective management can hasten constructive reform for it increases the ease with which the People's Bank can guide the reform. This has been demonstrated in the relations of the People's Bank with the joint-operations banking groups and the "five new banks" collectivized group. The People's Bank gives preferential treatment to such organizations.

3. The Value of the Central Control System of the Joint Public and Private Banks.

Since the liberation deposits in the five new banks has increased 1400 percent since the end of 1949. The average deposits of working people exceeds the total deposits of some private banks, while withdrawals are lower in private banks.

However, there are weaknesses. (a) Insufficient liaison with industrial firms. (b) Insufficient stability to the loan system. (c) Still too much intra-mural competition. Lately the People's Bank

- 82 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

has proposed and secured the consent of the directors of the five banks to a tighter organization intended to increase liaison and make these banks wholly concerned with caring for the business needs of private industrial enterprises. These banks are intended to be a pattern for the eventual collectivization of all private banks. These banks will carry on research along the lines of collective management and development of the national currency policies.

What are some of the advantages of the collective management system of these joint public and private banks?

a. It indicates that the national capitalistic system has been advanced a step in stability. If it turns out well, it will aid in making possible the expansion of the system.

b. It has set a pattern for collective action for all banking business. Setting up the centralized control in the joint public and private banks has raised the issue of collective action from the stage of discussion to the stage of practical application. This is bound to have a great influence on private banking interests.

c. It means greater aid to industry from these banks. Heretofore, the aid given has not been very efficiently administered. Central planning and specialization industry by industry will mean far more advancement in industrial expansion.

4. How to Strive for Collectivized Management.

The most important factor in achieving collectivized management is psychological preparation. Unless participants are convinced of the reasonableness and practical usefulness of the plan, it cannot be stabilized.

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

Two important questions present themselves in considering this matter. The first is the matter of personnel. If ten banks unite what shall become of the nine extra managers? This whole problem is one that must be solved in accordance with the conditions of the business. Personnel problems cannot be settled in a vacuum.

The second question is that of adjustment of real and movable assets in their relation to assignment of shares and profits to be assigned to each bank entering a collectivized management system. The central control system set up by the five joint public and private banks has set a pattern for private banks to consider. Democratic discussion in the spirit of give and take will result in solution of all the problems that now appear so formidable.

* E N D -

- 84 -

CONFIDENTIAL
Security Information

There are no pages from 85 to 94, in this Project

CONFIDENTIAL
Security Information

THE NEW STAGE OF CENTRALIZED OPERATIONS OF BANKING ENTERPRISES

Since the five banks, namely, the Hsin Hua, (Sin Hwa Trust and Savings Bank) Chung Kuo Shih Yeh Bank, Chongmin Savings Bank, Chun Kuo Tung Shang Bank and the Chien Yeh Bank, organized a Centralized General Management Board of Joint Public and Private Banks under the leadership of the People's Bank in May 27 1951, the question of carrying out centralized operations of banking enterprises is no longer a theoretical problem but a practical one. Events during the past three months fully demonstrate that centralized operations is the right direction for banking enterprises to take. The best proof of this is that the business activities of the five banks have started to expand rapidly since they acquiesced to the leadership of the State Bank (People's Bank) and accordingly reorganized their internal structure.

Since the establishment of the Centralized General Management Board of Joint Public and Private Banks, and because there are factual proofs that centralized operations have achieved results, three months thereafter four banks, namely, the Chekiang Industrial Bank, Kuo Hua Bank, Ho Cheng Bank and the Chung Kuo Ch'i Yeh Bank requested participation in the board. The Yien Yieh Bank, Kincheng Bank, China and South Sea Bank, Continental Bank and the Joint Savings Society also organized a Central Management Board. The first and second groups of associated banks are in the midst of preparing to organize a Central Management Board. There are additionally, other banks which are studying this question. Likewise a majority of the large banks of a national scope have already commenced centralized operations.

- 95 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

In Shanghai, where there is a concentration of modern and native banks, a large number of the middle and small size modern and native banks will be operated centrally. The centralized operation of banking enterprises has already entered a new stage.

The Chekiang Industrial Bank, Kuo Hua Bank, and Ho Cheng Bank are national in character. During July and August 1951, for the purpose of reorganizing their business, and because each had some capital that was owned by bureaucrats, these banks asked the People's Bank to appoint a director on their board of directors to represent the state capital shares and to participate in guiding their activities. Therefore these banks are organizations of state capitalism. In the past year they have made definite improvement in their business activities and in their organization. The three banks are simultaneously participating in the Centralized General Management Board of Joint Private and Public Banks and will strengthen this organization and consolidate and elevate the principle of state capitalism in the banking business.

To strengthen centralized banking operations, the middle and small sized modern and native banks have become almost one big family. They conscientiously and voluntarily participate in the Centralized General Management Board of Joint Public and Private Banks. Since the Chung Kuo Chi Yeh Bank (Chinese Development Bank) is a privately operated bank and different from the other three banks (Chekiang Industrial Bank, Kuo Hua Bank, and Ho Cheng Bank) it joined the board so that it can be considered a branch bank of this group (and make use of the facilities of the other banks). This is one of the ways whereby private middle and small sized modern and native banks move toward centralized management. This in effect strengthens the elements of state capitalism in banking.

CONFIDENTIAL

CONFIDENTIAL
Security Information

The Joint Savings Society, the Yienyieh Bank, Kinchong Bank, Continental Bank, and China and South Sea Bank are customarily called the "Pei nu Bank" and they have a comparatively long history. The five banks were closely affiliated and their capital inter-locked. Among these banks the Kinchong, China and South Seas, and Continental were in circumstances very similar to that of the Chekiang Industrial Bank. These banks also asked the People's Bank to appoint directors to represent the state shares that were owned by bureaucrats. In December 1950, the five banks organized a joint management board, but because they did not reform their own work joint operations did not succeed. However with the organization of the Centralized General Management Board under the leadership of the People's Bank, the principles of the state capitalism has been reaffirmed. It is believed that under the leadership of the State Bank and with the prevailing unity of public and private banks, all difficulties will be surmounted and progress will be made.

The first and second groups of associated banks were all organized at the same time in July of last year and also included some 20 middle and small size native banks. Because joint operations during the past year helped certain native banks in their internal reforms this created conditions which laid the ground work for the organization of centralized management. The immediate problem is how to take the next step of recognizing the benefit of centralized management to individual banks and to the overall national economy. This recognition is the starting point to promote such activities leading to centralized management. At the same time, in order to strengthen centralized

- 97 -
CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

management, the first and second associated bank groups ought to encourage other banks and native banks to participate in the board of centralized management.

Summarizing, the central management of banking business has already entered a new stage. Hereafter the work of centralized management is to continue the expansion of its scope of operations, consolidate and raise its effectiveness. The following three points, therefore, should be noted:

(1) As for banks who are newly participating or organizing centralized general management boards, they have commenced taking further reform measures. They should actively and energetically reorganize their structure, improve their services, increase study, and achieve results in their practical work.

(2) To accommodate and help the expansion of the industry and commerce, banking enterprises should mutually correct the manifestations of wasted effort which can be eliminated by the expansion of centralized management. Therefore, each affiliated group of banks should mutually study and establish close relations and gradually develop division of labor and cooperation.

(3) They must advance one further step and acknowledge the leadership of the State Bank. After the liberation, the reorganization of banking and the development of centralized management could not be dissociated from the correct leadership of the State Bank. Therefore, only by actually carrying out the banking policy and the measures of the State Bank and by energetically "studying" (following) the State Bank can we satisfactorily complete our task.

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

We can be confident that by following the experiences and progress of centralized management of banking and by consolidating and reaffirming the principles of state capitalism in banking business, we would greatly assist the progress of commerce and industry and accelerate the favorable turn of basic economic conditions.

1 September 1951.

- 99 -
CONFIDENTIAL
Security Information

CONFIDENTIAL

THE COURSE OF OPERATIONS AFTER CENTRALIZED MANAGEMENT OF FINANCIAL ENTERPRISES

Under the leadership of Chairman Mao and the Central People's Government, China has attained great victories in the past two years; there have been brilliant achievements in political, military, and economic reconstruction. As a result of this, we have had great achievements in the financial operations of our production requirements.

In the first year of the establishment of the Chinese Peoples Republic, the important tasks of financial operations were the formation and development of a national banking organization and the acquisition and improvement of the financial machinery of the bureaucratic capitalists, the application of the financial policies of the Common Program in the control of financial markets and in supervision of foreign exchange, the control of private financial groups and the elimination of imperialistic financial power, as well as the application of policies in "Unification of Financial and Economic Work" to stabilize the currency and the preparation of guiding principles for the revival and development of production.

In the second year of the Chinese People's Republic, the important tasks of financial operations were: to strengthen financial stability, to effect in overall expansion of national banking through increased currency controls, to expand private industry as well as rural financial work, to unify currency and financial machinery throughout the country, to improve private financial enterprise, and to assist them in mergers and in their move toward "national capitalism." In this way it is possible to have a planned national economy due to the increasing good order and

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

stability of the financial structure of the New Democracy as led by the People's Bank.

I. The New Era of Centralized Control of Financial Enterprises.

Strictly speaking, the preparatory thinking for the centralized control of financial enterprises was begun after the close of All-China Financial Enterprises Joint Conference of August last year. However, actual centralized control did not start until July of this year when the five joint-operated public-private banks Hsin-hua, Chung-kuo Shih-yeh, Ssu-ming, Chung-kuo T'ung-shang, and Chien-yeh (based on the decision of the Second All China Financial Conference to "set up the control machinery for a union of joint-operated banks and realize a step toward centralized leadership), under the guidance of the Peoples Bank, organized on 27 July a general management board for a union of public-private joint-operated banks. The last 3 or 4 months have proved that centralized control is the true course for financial enterprises to follow. Just as vice-president Hu Ching-yun of the Peoples Bank pointed out in his article "The Significance of the Development of Private Industry and Commerce by the National Banks," "the joint-operated banks Hsin-hua, Chung-kuo Shih-yeh, Ssu-ming, Chung-kuo T'ung-shang, and Chien-yeh have already organized a combined general management board, received guidance from the government, and have improved their internal organizations. As a result, they have begun to develop rapidly in business affairs. In the future all those banks which desire to form combined management boards or those which want to copy this form of operating technique, will be inspired by these five banks."

- 101 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

stability of the financial structure of the New Democracy as led by the People's Bank.

I. The New Era of Centralized Control of Financial Enterprises.

Strictly speaking, the preparatory thinking for the centralized control of financial enterprises was begun after the close of All-China Financial Enterprises Joint Conference of August last year. However, actual centralized control did not start until July of this year when the five joint-operated public-private banks Hsin-hua, Chung-kuo Shih-yeh, Ssu-ming, Chung-kuo T'ung-shang, and Chien-yeh (based on the decision of the Second All China Financial Conference to "set up the control machinery for a union of joint-operated banks and realize a step toward centralized leadership), under the guidance of the Peoples Bank, organized on 27 July a general management board for a union of public-private joint-operated banks. The last 3 or 4 months have proved that centralized control is the true course for financial enterprises to follow. Just as vice-president Hu Ching-yun of the Peoples Bank pointed out in his article "The Significance of the Development of Private Industry and Commerce by the National Banks," "the joint-operated banks Hsin-hua, Chung-kuo Shih-yeh, Ssu-ming, Chung-kuo T'ung-shang, and Chien-yeh have already organized a combined general management board, received guidance from the government, and have improved their internal organizations. As a result, they have begun to develop rapidly in business affairs. In the future all those banks which desire to form combined management boards or those which want to copy this form of operating technique, will be inspired by these five banks."

- 101 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

With the establishment of the combined management board of public and private banks and the obvious success of the centralized control, other banks of national scope, such as the Chekiang Hsing-yeh, Kuo-hua, and Ho-ch'eng, formed combined management boards on the 1st of September. The local Chung-kuo Ch'i-yeh Bank also entered this management board at the same time. Recent reports say that the two banks, Ch'u-hsing-cheng and Yuan-yuan-ch'ang, are also entering combined general management board in the near future.

Furthermore the five banks of the "Pei-wu Hang" [Five Northern Banks], Yen-yeh, Chin-ch'eng, Chung-nan, Ta-lu, and Lien-ho, also formed a combined general management board on 1 September. This also increased the support of national capitalism. During August, the Shanghai Bank increased its holdings of public bonds and advanced another step towards obtaining leadership of the national banks.

In this way, all banks of national scope, except The First Bank of Chekiang, have already entered the sphere of national capitalism and have begun centralized control.

Among the medium and small banks, 15 banks in Wu-han have decided to form a Wu-han Combined Commercial Bank. The First and Second Combined Group of Shanghai Private Financial Enterprises has decided to establish centralized control and in October will set up a combined general management board. Various individual banks in Tientsin and Chungking are also considering joint-managed operations.

This characterizes the new era of financial activity.

The combined management of financial affairs and an increase of the number of participants in national capitalism are in complete accord with the economic policies of the New Democracy. Financial operations

CONFIDENTIAL
Security Information

constitute economic activity of a comprehensive nature and are an important aspect of a planned people's livelihood. With this in mind, Article 39 of the Common Program in dealing with financial policy clearly points out: "Financial enterprises must be strictly controlled by the State," and "legal private financial operations must be inspected and guided by the State." Furthermore, during the last 100 years China's financial enterprises have not been native services for production but have been under imperialistic bureaucratic control and dependent upon financial manipulations and inflation for an abnormal development. Therefore, these operations have been at odds with China's industrial production. Thus, since entering the economic sphere of the New Democracy, financial operations have met with difficulties even longer than most economic enterprises. Those which couldn't make the grade are already weeded out. The rest have had to improve themselves by throwing off old faults and taking a new form; and centralized control is really an excellent method for effecting improvement. Also, in order to facilitate improvement, financial enterprises should seek guidance from the State bank and enter into centralized control; at the same time they will thus increase the number of adherents to national capitalism among the financial enterprises. This is in complete accord with the spirit of Article 31 of the Common Program which states: "Whenever necessary and possible, private capital should be encouraged to develop in the direction of national capitalism."

- 103 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

II. The Course of Struggle After Centralized Control

Centralized control of financial enterprises has already entered a new era, that is to say that the period has opened in which financial enterprises will serve in better fashion, industry and commerce. Therefore the future course of action is to strengthen and improve the results of combined management, and under leadership of the People's Bank, to ride the rising wave of national economic reconstruction.

To accomplish this, the jointly managed financial organs must fulfill three goals.

1. To increase organization and reconstruction.

The difference in organization between combined management and ordinary centralized control lies in the fact that under combined management, business, financial, and personnel affairs and all operations are managed jointly. Except for capital, which has not yet been unified, the rest is basically formed into one structure. Although the units which accept combined management still maintain their old legal position, they are in effect branch organs. After a short period, completing the task of re-estimating property and balancing capital, they can easily enter a partnership and form a single body. At present, they must work in this direction. Strong-willed thought or actions on the part of any unit would impede the advance of group activities and would seriously weaken the strength of the combined group. Therefore, the combined general management board should be a powerful controlling organ and not a consultative organization. If the same general management board has two or more units in other areas, then a local leading organ must be designated to direct operations in those areas; and when the conditions

CONFIDENTIAL
Security Information

~~CONFIDENTIAL~~
Security Information

for partnership have been fulfilled, these will then become an organization of branch banks. Negatively speaking, the above method can eliminate subjective thinking and uncooperative actions. Positively speaking, it will further concentrate power to improve fulfillment of the responsibilities toward private industry and commerce. Therefore, all organization and reconstruction activity should be filled with a spirit of concentration of effort in carrying out responsibility toward industry and commerce; and the strengthening of organization and reconstruction will be important evidence of the improvement of all activities.

2. The Establishment of Liaison Between all General Management Boards.

Through the establishment of general management boards most of the conflict has been eliminated from the business affairs of financial enterprises. However, since each general management board is independent, much conflict still remains on this higher level. At present, in Shanghai, the important financial enterprises are the five following: The Combined General Managership of the Public-private Banking Union, the Combined General Managership of the "Five Northern Banks," the Shanghai Bank, and the General Managership of the First and Second Banking Groups. These five groups are estimated to handle more than 90 percent of all Shanghai's banking business. Therefore a very important task is the establishment of liaison between these five units with the leadership of the People's Bank making possible a more planned development of private enterprises. From the point of view of present conditions and future demands, a liaison is absolutely necessary. Because such a liaison can supply a coordination of progress and methods under a unified policy, and thus in turn attain a division of responsibility.

~~CONFIDENTIAL~~
Security Information

CONFIDENTIAL
Security Information

Since the formations of the general management boards will not all take place at the same time, it will be possible for one to learn from the mistakes of the other and for all to improve through these experiences.

III. The Course of Business Activities.

The general course of action for the financial enterprises is to assist the development of industrial and commercial enterprises. In order, better to fulfill this duty, it is necessary to expand in scope and yet to be thorough in detail. To expand in scope requires more interest in the medium and small enterprises. The present narrowness of scope is seen in the fact that only about 50 percent of some 150,000 industrial and commercial enterprises in Shanghai have established connections with banking firms. It is necessary to organize various industrial conferences to establish connections between the banks and these enterprises. It must be pointed out that though the business of each of these medium and small firms will be on a small scale, still the aggregate will be a large sum. Also, from the viewpoint of expansion and of the responsibility of the financial enterprises, it can be seen that these medium and small industrial and commercial firms are properly the objects of financial activity. After centralized control, reorganization of duplicated firms will create a surplus for expansion of this kind of work.

To be thorough in detail requires that the financial enterprises thoroughly understand the actual conditions of industry and commerce and the organizational relationship necessary to the establishment of

- 106 -

CONFIDENTIAL
Security Information

CONFIDENTIAL
Security Information

industrial and commercial firms. Then it will be possible to render more effective assistance to these firms. In this aspect, a great deal of experience has already been obtained which has expedited business agreements and which will bring about a gradual increasing rate of progress.

In the early stages, it will be possible to use such elementary business agreements as exchange futures contracts and within a fixed time more complex business agreements can be drawn up.

27 September 1951.